



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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PERSONNEL AND
READINESS

The Honorable J. Dennis Hastert
Speaker of the House
Washington, DC 20515

Dear Mr. Speaker:

I have enclosed a report to Congress that covers two areas involving the Armed Services' aviation programs. Section 301a(f), title 37, United States Code (USC), requires information annually on the number of waivers granted to aviators who fail to meet the operational flying duty requirements ("gates") in title 37, USC, § 301a(b). The waivers allow aviators unable to complete the required gates to receive continuous Aviation Career Incentive Pay (ACIP). Additionally, § 301b(i), title 37, USC, requires the Department to submit information annually to the Committees on Armed Services of the House and Senate analyzing the effects of Aviation Continuation Pay (ACP) and its impact on retention in the past fiscal year. I have synopsisized information for fiscal year 2002 at the executive summary; more detailed data from each of the Armed Services are also enclosed.

I am sending a similar letter to the President of the Senate, and to the Chairman and Ranking Member of the Armed Services Committees.

Sincerely,

Charles S. Abell
Principal Deputy

Enclosures:
As stated

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EXECUTIVE SUMMARY

In Fiscal Year 2002 (FY 02), 182 aviators missed their gates, 37 waivers were granted and 3 are pending. All Navy, Marine Corps, and Coast Guard aviators met their gates in FY 02. In the Air Force, 137 officers missed their gates. Twenty-four waiver requests were submitted; 16 were granted and, as of this date, 3 are pending. Of the 16 waivers granted, all failed to meet their gate requirements due to reasons beyond their control. Ten were granted to air battle managers, whose career field was not rated until October 1999, and who were assigned to non-flying ground duties, which are now covered in Air Force Instruction 11-401 as eligible for waivers. Two were due to the requirement for follow-on joint assignments after Joint Professional Military Education attendance in compliance with the Goldwater-Nichols Act. One navigator was approved for waiver due to the non-availability of flying assignments. One pilot was temporarily assigned to non-flying duties due to medical reasons. One pilot missed required gates due to inter-service transfer from the Navy. Lastly, one pilot missed a gate by 2 months due to an Air Force decision wherein he was a non-select on a Return-to-Fly Board. In FY 02, 45 Army aviators missed their gates and 21 waivers were granted. Army rationale for waiver approvals included 14 who were required to attend Joint Professional Military Education under the Goldwater-Nichols Act and seven individuals were selected for key Joint and senior Army staff assignments outside of the aviation career field. The Services' attached reports provide details about the gates missed and waivers granted.

In FY 02, the Air Force continued the provisions of its FY 01 program, which offered \$25K a year for 5-year or long-term agreements (through 20 or 25 years of aviation service (YAS)) as well as \$15K per year for 3-year agreements. Initial eligibles, i.e., pilots completing their active duty service commitment for pilot training in FY 02, continued to have the option of receiving annual installments or taking 50 percent of the agreement value in a lump-sum payment with the remainder in annual installments. Pilots already under a FY 01 or earlier ACP agreement could opt to convert their agreement to the new program structure. These pilots could accept a 5-year, 20-year, or 25-year service agreement, and receive annual installments. Other pilots in the grade of colonel or below not receiving a bonus and past their initial Active Duty Service Commitment could accept an ACP agreement in FY 02 provided they were otherwise eligible. The Air Force's FY 02 ACP program had one modification from the previous year: FY 02 agreement takers were allowed to execute a new agreement if it resulted in an increase of at least three years to their current ACP active duty service commitment. In FY 02, there were 521 initial eligibles; 302 (57.9 percent) took an agreement. Of the 302, a total of 244 took a long-term agreement of 5 or more years, resulting in a 46.8 percent long-term take rate. The overall take-rate was 13.6 percent (nearly 1,000 of the approximately 7,000 eligible accepted a new bonus or converted a previous bonus to the new structure). Air Force pilot losses versus production improved from FY 01 (862 FY 01 losses/1,068 gains versus 301 FY 02 losses/1,083 gains).

The Navy's FY 02 ACP program mirrored the FY 01 program with the only exception being the addition of the 1-year early payment option for the initial eligible 3-and

5-year contracts. Navy's ACP consists of a tiered bonus system tied directly to force structure and targeted to initially eligible aviators, those on sea duty, and command billets ashore or afloat. Rates were either \$15K or \$25K annually and payments were offered as 50 percent lump sum for long-term (5-year) contracts and annual payments for all others (2-year, 30-month, or 3-year contracts). The program is structured to offer the greatest incentives to aviators approaching the completion of their initial service obligation incurred for initial flight training. At this point, Navy offered a 5-year bonus of \$25K per year to pilots and \$15K per year to Naval Flight Officers (NFOs). Additionally, aviators in year groups 1990 and junior, previously under FY 00 ACP contracts, were offered a 3-year bonus of \$25K per year to pilots and \$15K per year to NFOs. This 3-year option was offered to allow an equitable transition to those aviators approaching their department head tours. Tied to operational flying and non-flying positions, there were five additional levels where the program was offered to eligible aviators (O-6 and below with initial service obligation complete and assigned to a designated billet) beginning at the second, or disassociated sea tour, and ending at Major O-6 Command ashore or afloat. The dollar amount for these contracts was \$15K annually and obligated these aviators to remain on active duty for 2-to-5 years depending on the billet assigned. The Navy's FY 02 program resulted in an 11 percent increase (from 31 to 42 percent) in aggregate aviator retention over pre-ACP program levels. Although retention met aggregate requirements, required retention will more than double to 85 percent by FY05. This requirement is due to the impact of the "T-Notch" (under accessed Year Groups 93-95) as these Year Groups move into Department Head billets. Many platform-specific communities will require more than 100 percent retention, reflecting first tour accessions, which were already less than Department Head requirements. Therefore, it will be necessary to achieve retention rates greater than historic levels over the next 5 years.

The Marine Corps FY 02 ACP plan, too, was basically a continuation of its FY 01 plan. The only change was the institution of the early contract authority (1 year) granted in the FY 02 National Defense Authorization Act. Contract amounts varied based on community. Fixed wing pilots were offered \$18K for short-term (36 mos.) and \$25K for long-term (to complete 16 years of commissioned service) in annual installments, rotary wing pilots \$9K (short-term) and \$12K (long-term) per year, while the naval flight officers were offered \$6K (short-term) and \$12K (long-term) per year. For lieutenant colonels, only the short-term option was available. Obligations and contracts were written out to the beginning of 22 years of commissioned service. The FY 02 plan allows eligible officers to continue receiving ACP contracts until 22 Years of Commissioned Service. The Marine Corps approved 303 ACP new/converted contracts in FY 02 (an overall take rate of 87 percent for majors and 94 percent for lieutenant colonels). The Marine Corps has been successful in shoring up rotary wing and NFO officer inventories in the past few years. Improvement in the fixed wing inventory resulted in FY 02 ending short 224 fixed wing pilots, down from 326 in FY 01.

In FY 02, Army expanded its ACP program to include all aviation warrant officer military occupational specialties. ACP was offered at two critical windows: warrant officers with seven YAS, but less than 11 years (\$12K per year contracts through 11 years service) and warrant officers with 11 YAS, but less than 15 years (\$12K per year through 15 YAS).

Shortages of special operations aviators were highlighted by combat operations in the Afghan theater. Warrant officers in all special operations aviation specialties who have more than 6 years, but less than 24 years, were offered contracts in a maximum of 4-year increments through their 25th YAS. Army achieved an 88.3 percent take rate for FY 02. After expanding the ACP program to include all aviation warrant officer specialties, the inventory setbacks have been reversed. Inventory is likely to reach required strength by FY 05, if the program is continued.

The Coast Guard offered ACP for the first time in FY 00, but did not offer any additional ACP payments in FY 01 or FY 02.

ACIP and ACP remain proven, highly effective tools to retain aviator experience and ensure the readiness of the future force. The ACP "take rate" for all the Services (except Coast Guard) in FY 02 showed improvement over FY 01 programs; however, further improvements are essential in order to succeed in the coming years.

This report is submitted in accordance with Title 37, United States Code, Chapter 5, Section 301a (f), which requires the Secretary of Defense to submit a report annually to Congress on waivers granted by the Service Secretaries to the aviation career incentive pay operational flying duty requirements ("gates"). In addition, Title 37 United States Code, Chapter 5, Section 301b (i) requires the Secretaries of the Military Departments that executed an Aviator Continuation Pay program during the preceding fiscal year to submit a report to the Secretary of Defense describing the effects of the aviator bonus program and its impact on retention.

Aviation Career Incentive Pay and the Aviator Continuation Pay programs remain vital in our efforts to positively influence the retention behavior of experienced Air Force aviators. As such, we continue to pursue initiatives that enhance these programs, such as increasing the value of Aviation Career Incentive Pay and expanding the use of Aviator Continuation Pay to include navigators and air battle managers. The information below is provided for the Office of the Secretary of Defense to assist in preparing a consolidated service report.

PART I: FY02 Aviation Career Incentive Pay Flying Gate Waivers

In FY02, 137 Air Force officers missed a flying gate; 38 failed to meet their first gate, 19 missed their second gate, and 80 missed their third gate. Of the 137, 48 were pilots, 60 were navigators, and 29 were air battle managers. Twenty-four flying gate waiver requests were submitted to the Air Force Personnel Center during FY02. Sixteen of these requests were approved, 5 disapproved, and 3 are pending.

Of the 16 gate waivers that were approved, 11 officers failed to meet the first gate requirement of 96 months within their first 12 years of aviation service, 1 officer failed to meet his second gate requirement of 120 months within his first 18 years of aviation service and 4 failed to meet their third gate requirement of 144 months within their first 18 years of aviation service. The following is the months completed and periods waived:

Months completed	Waiver for additional months	Crew position	Reason for waiver
1. 132	12	Navigator	Non-availability of flying assignments
2. 88	8	ABM	Eligible under AFI 11-401 criteria*
3. 86	10	ABM	Eligible under AFI 11-401 criteria*
4. 141	3	Pilot	Goldwaters-Nichols Act**
5. 120	24	Navigator	Goldwaters-Nichols Act**
6. 87	9	ABM	Eligible under AFI 11-401 criteria*
7. 142	2	Pilot	Non-select on Return to fly board
8. 78	18	ABM	Eligible under AFI 11-401 criteria*
9. 93	3	Pilot	Interservice transfer from Navy
10. 86	10	ABM	Eligible under AFI 11-401 criteria*
11. 64	32	ABM	Eligible under AFI 11-401 criteria*
12. 76	20	ABM	Eligible under AFI 11-401 criteria*
13. 87	9	ABM	Eligible under AFI 11-401 criteria*
14. 87	9	Pilot	Extended DNIFs
15. 91	5	ABM	Eligible under AFI 11-401 criteria*
16. 96	24	ABM	Eligible under AFI 11-401 criteria*

* ABM career field was not rated until 1 Oct 1999. These ABMs were assigned to non-flying ground jobs now covered under AFI 11-401 as grounds for granting a waiver.

** The Goldwater-Nichols Act requires officers to have served in a Joint assignment in order to be considered for promotion to the rank of General Officer. As such, attendance at Joint Service Schools requires a follow on assignment to a Joint position, which is typically a non-flying position.

PART II: FY02 Aviator Continuation Pay

Aviator Continuation Pay

After peaking at a record high 6-11 year cumulative continuation rate of 78% in 1983, Air Force pilot retention began a steady decline through the remainder of the decade. Based on this trend, and aviator retention difficulties throughout the Department of Defense, Congress enacted the Aviator Continuation Pay program. The Air Force implemented Aviator Continuation Pay on 1 Jan 89 and continues to use the authority.

ACP Rate and Agreement Term Methodology: Air Force methodology has evolved to meet retention needs since the program's inception in 1989. The Air Force initially offered \$12K per year for agreements to 14 years. Increased commercial demand for military pilots and decreased monetary incentive value of ACP necessitated shifts in the Air Force's ACP program philosophy. Beginning in FY91 and continuing through FY00, the Air Force instituted significant changes to improve the overall effectiveness of the ACP program. The bonus amounts paid to pilots are set at the maximum allowable by law. This is necessary to have the optimum retention effect, and reflects the long-term economic realities of the marketplace against which the Air Force must compete.

Term agreements for pilots are set at their initial separation eligibility points. The terms offer members the flexibility to make short or long-term agreements while giving Air Force leaders the necessary tools to effectively and predictably manage the rated force.

ACP History: In FY91, the Air Force began offering eligible pilots the option of electing equal annual installments or choosing the new option of receiving 50% of their total Aviator Continuation Pay amount as an up-front lump sum payment. This change dramatically improved the monetary incentive value of the bonus and consequently generated a greater retention effect. In 1996, in addition to eligible fixed-wing pilots, rotary-wing pilots were offered Aviator Continuation Pay for the first time due to the decline in helicopter pilot cumulative continuation rates.

A significant change in Aviator Continuation Pay policy occurred in FY98 with passage of the National Defense Authorization Act that increased the maximum annual Aviator Continuation Pay payment allowed to \$25K per year. The Air Force increased agreement values from \$12,000 to a maximum annual rate of \$22,000 for agreements through fourteen years of commissioned service. Additionally, the FY98 National Defense Authorization Act contained authority to offer the amended program retroactively to the FY97 year group. After closing out FY97 with an Aviator Continuation Pay take rate of just 29.5% (220 accepting out of 747 eligible), the Air Force offered the amended FY98 program to the FY97 year group with agreement options of \$22,000 for long-term agreements. Sixty-six additional pilots who had previously declined Aviator Continuation Pay under the old provisions agreed to accept Aviator

Continuation Pay commitments as a result of the retroactive amendment policy. In FY98 the Air Force also, for the first time, offered the option of discrete agreement lengths of one, two, or three years at \$6K, \$9K, and \$12K per year, respectively.

As the Air Force transitioned into the FY99 program, the overall program objective was to retain the 1,290 new FY99 eligibles and renegotiate the FY97/FY98 aviators currently under variable length agreements (one, two, or three years) by offering them longer-term agreements through fourteen years of commissioned service. Payment methods remained unchanged. First time eligibles were offered 50% up-front lump-sum payments and all remaining eligibles equal annual installments. Aviator Continuation Pay take rates did improve somewhat in FY99, though some of that is attributed to the FY99 National Defense Authorization Act that changed eligibility from more than six but less than 13 years of active duty to more than six but less than 13 years of aviation service. This change made Aviator Continuation Pay bonuses available to a larger population of pilots with prior enlisted service.

FY00 saw a major restructuring of the Air Force Aviator Continuation Pay program, primarily the result of outcomes from the Office of the Secretary of Defense cross-Service Aviator Compensation Working Group. In response, Congress amended Title 37 United States Code via the FY00 National Defense Authorization Act to permit Aviator Continuation Pay payments to 25 years of aviation service and extend eligibility to colonels. The Air Force fully capitalized on the new bonus authority by offering agreements to 20 and 25 years of aviation service and included colonels. Agreements were valued at \$15K for 3-year and \$25K for 5-year, to 20 and to 25 years of aviation service. Initial eligibles, i.e., pilots completing their active duty service commitment for pilot training in FY00, continued to have the option of receiving annual installments or taking 50% of the agreement value in a lump-sum payment with the remainder in annual installments. Pilots already under a FY99 or earlier Aviator Continuation Pay agreement were given the opportunity to convert their agreement to the new program structure by amending their agreements. These pilots could accept a 5-year, 20 years of aviation service or 25 years of aviation service agreement and receive annual installments. Other pilots in the grade of colonel or below not receiving a bonus and past their initial active duty service commitment for pilot training could also accept an agreement in FY00 provided they were otherwise eligible. As a result of program restructuring, over 8,000 Air Force pilots were eligible for a bonus in FY00--roughly an eight-fold increase over FY99. The overall bonus take rate was 62% with over 5,000 of all eligibles either accepting a new bonus or converting their current bonus to the new structure.

The FY01 Aviator Continuation Pay program carried forward the same basic framework of the FY00 program with two enhancements for initial eligibles. The up-front lump sum payment cap was raised from \$100K to \$150K and the up-front payment options were expanded. Initial eligibles could accept 50%, 40%, 30%, or 20% of the total value of the agreement up front for agreements 5 years or longer with the remainder paid in annual installments. This allowed each individual to tailor their agreement to best suit their personal needs. The overall objective of this program was to encourage a higher percentage of longer-term agreements to 20 and 25 YAS by raising the lump sum payment ceiling to (approximately) \$137K and \$150K, respectively.

The FY02 Aviator Continuation Pay program had one modification from the FY01 program--FY02 agreement takers were allowed to execute a new agreement if it resulted in an increase of at least three years to their current Aviator Continuation Pay active duty service commitment.

Current Environment

Pilot retention in the Air Force continues to be a challenge. Even though the major airlines have stopped most new hires (discussed in detail below) long-term shortages of rated officers generally, and pilots in particular, will continue for the next decade. Of particular concern, the pilot shortage will vary from at least 600 to over 1,260 pilots per year through FY10.

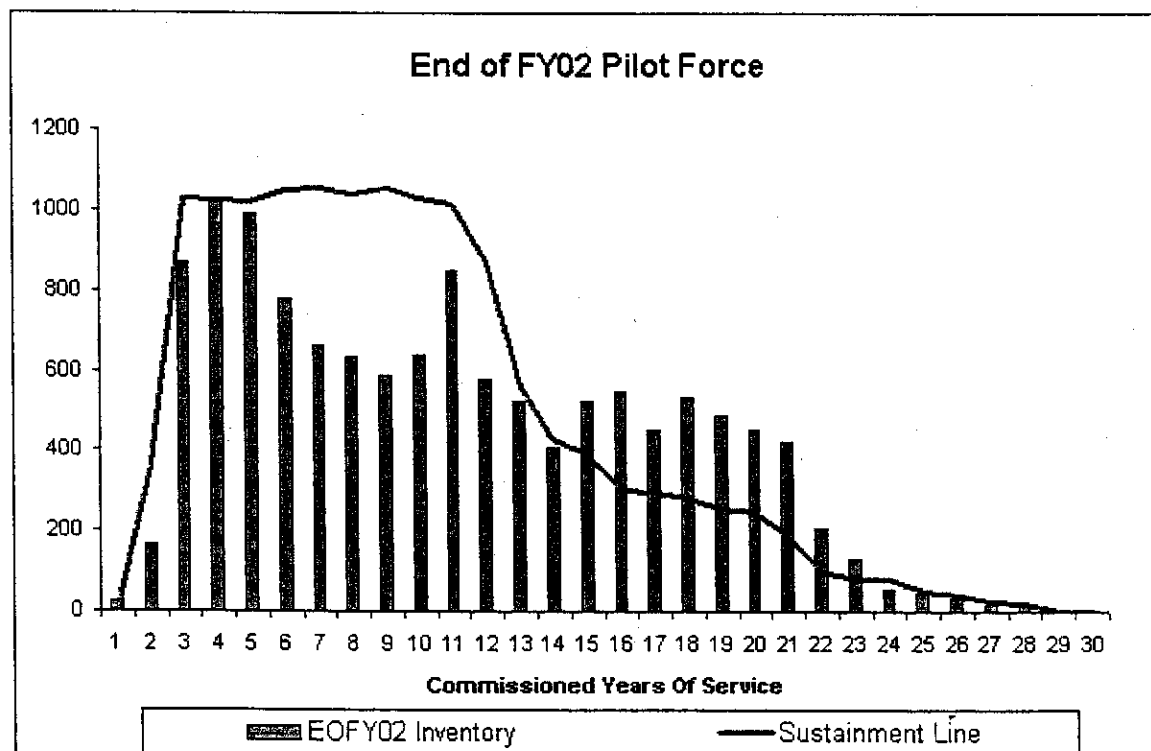
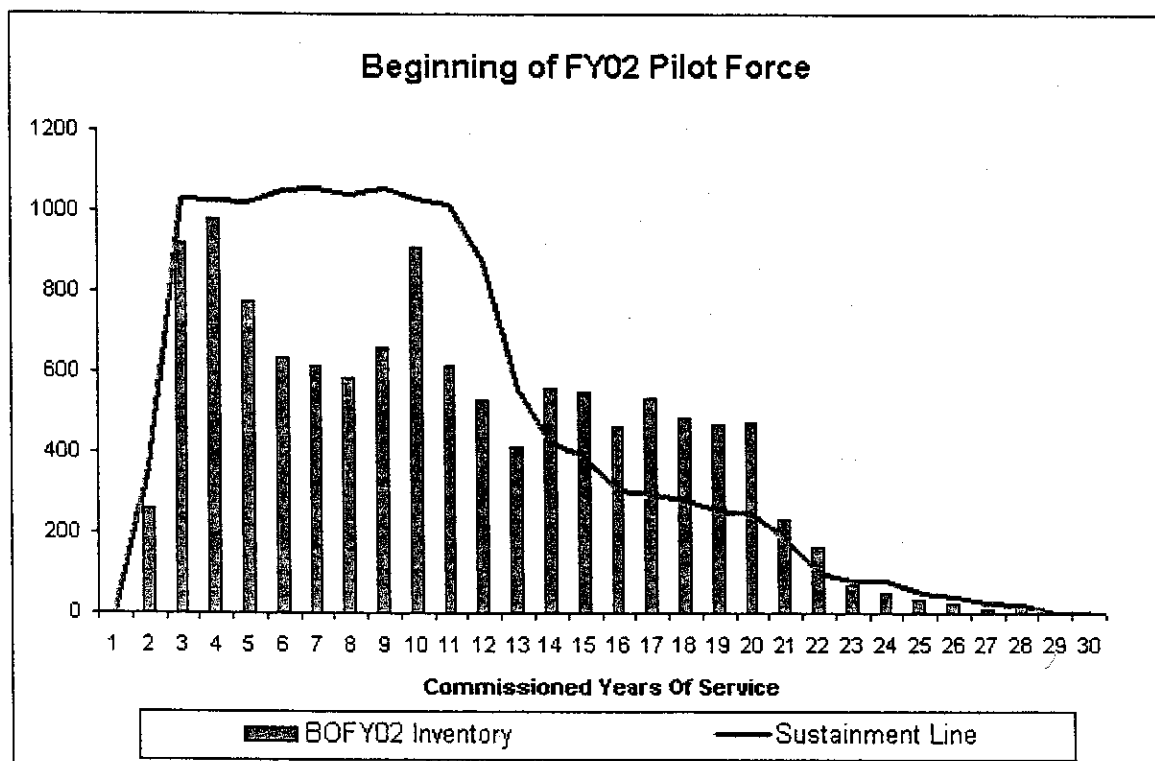
The airline industry remains in a state of turmoil more than a year after September 11th. Net operating losses (of the major airlines) continue to mount: over \$7.7 billion in FY01 and over \$8 billion in FY02, with no firm recovery forecast for FY03. In response, the airlines are streamlining business models, reducing capacity, furloughing employees, and lobbying the Federal Government for assistance in funding new security requirements and loan guarantees to thwart Chapter 11 bankruptcy. Most major airlines plan to further reduce capacity (i.e. by flying aircraft fewer hours per day, cutting routes both domestically and overseas, grounding airplanes, etc).

Total airline layoffs since Sept 11th have exceeded 100,000 employees, with over 5,000 pilots currently on furlough from the major airlines. This downsizing will likely continue until airline revenues begin to keep pace with expenses, which will take several years. This industry-wide downsizing will have a significant effect on future hiring by the major airlines. Based on the total number of pilots furloughed to date, it will take 2-4 years to recall pilots currently furloughed, before any new pilot hiring starts. As a result, it will be approximately 4-6 years before airline hiring will again exert significant pressure on Air Force pilot retention.

During this lull in airline hiring, the Air Force's intent is to place as many pilots on a long-term service commitment as possible. This action, coupled with increasing pilot production and pilot training service commitment to 10 years will assist us in attaining our ultimate goal of stabilizing the pilot inventory. Aviator Continuation Pay continues to play a vital part in helping us achieve our overall objective and maintain the "hold" line on pilot retention. Although the downturn in the economy and reduction in airline hiring rates have aided our pilot retention efforts, rated manning is, and will continue to be, a primary concern. We are concerned not only about our pilot force, but about our navigator and air battle manager (ABM) forces as well.

We expect pilot shortages of up to 10% over the course of the next decade. Although navigators are healthy today (9% overage), we expect a rapid decline resulting in shortages by FY05 due to a large retirement-eligible population (48% within the next 5 years) which cannot be counterbalanced due to the small numbers of navigators trained during the mid-1990s. The ABM force is currently 17% short of requirements, but on a recovery track with a near-term surge in production and sustained high production thereafter. Collectively, these issues present serious readiness implications. As a result, in FY02, the Secretary of the Air Force and the Chief of Staff of the Air Force approved the policy decision to offer ACP to specific groups of navigators and ABMs for the first time beginning in FY03. Production and absorption limitations or a downturn in retention will slow the rate of recovery. Taken as a whole, the "Total Rated" picture is bleak throughout the next 5 year-7 years, necessitating the continued need for a robust Aviator Continuation Pay program.

The two charts below depict the pilot force profile at the beginning of FY02 and the end of FY02. The low inventory rates prior to 10 commissioned years of service are due to reducing production from 1,528 in FY91 to an all-time low of 481 in FY95. After FY95, production increased to 525 in FY96, 682 in FY97, 869 in FY98, 1,011 in FY99, 1,085 in FY00, 1,068 in FY01, and 1083 in FY02. These production fluctuations created a “bathtub” seen in the charts between the 4-9 commissioned years of service. The graphs clearly illustrate the continuing pilot retention challenge and highlight the target group for Aviator Continuation Pay as all pilots who have completed their undergraduate flying training active duty service commitment.



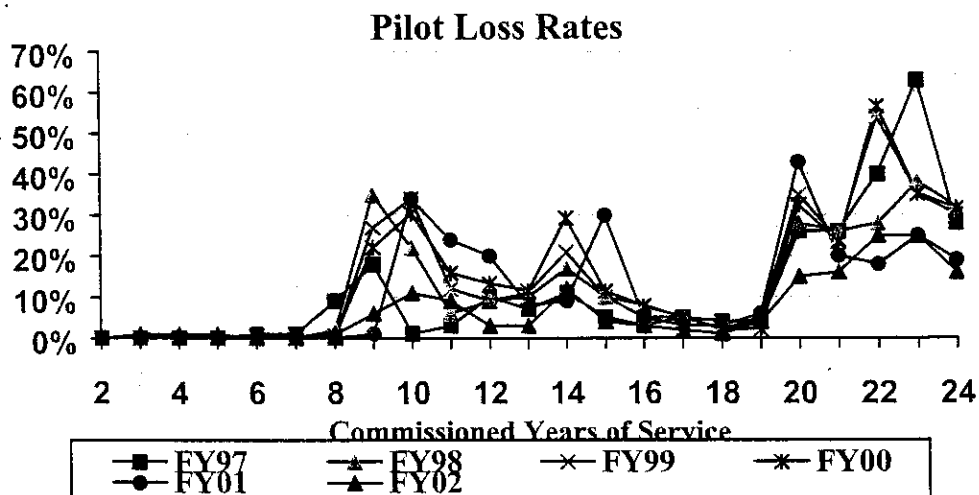
Air Force pilot losses, not including retirements, were 1,117 in FY99, 1,087 in FY00, 862 in FY01 and 301 in FY02 (slightly over 5% of the pilot force). However, 338 pilots have already applied for separation in the first 6 months of FY03 *despite the current turbulence in the airline industry*. During the years FY99, FY00, and FY01 approximately 15% of the pilot force separated each year, and we expect a 15% separation rate in FY03 as well. Thus, the pilot separation rates in FY02 are an anomaly, primarily due to the effects of Stop Loss. The table below shows the number of pilots who were not retirement eligible who separated, compared to the population of those who were not retirement eligible and eligible to separate (no active duty service commitments). Although the percentage is high for FY01, this is expected because the number of eligibles to separate should be shrinking as people accept an Aviator Continuation Pay bonus, which results in a higher separation rate for those eligible to separate.

Air Force Pilot Separations (not including retirements)

NRE = Not retirement eligible

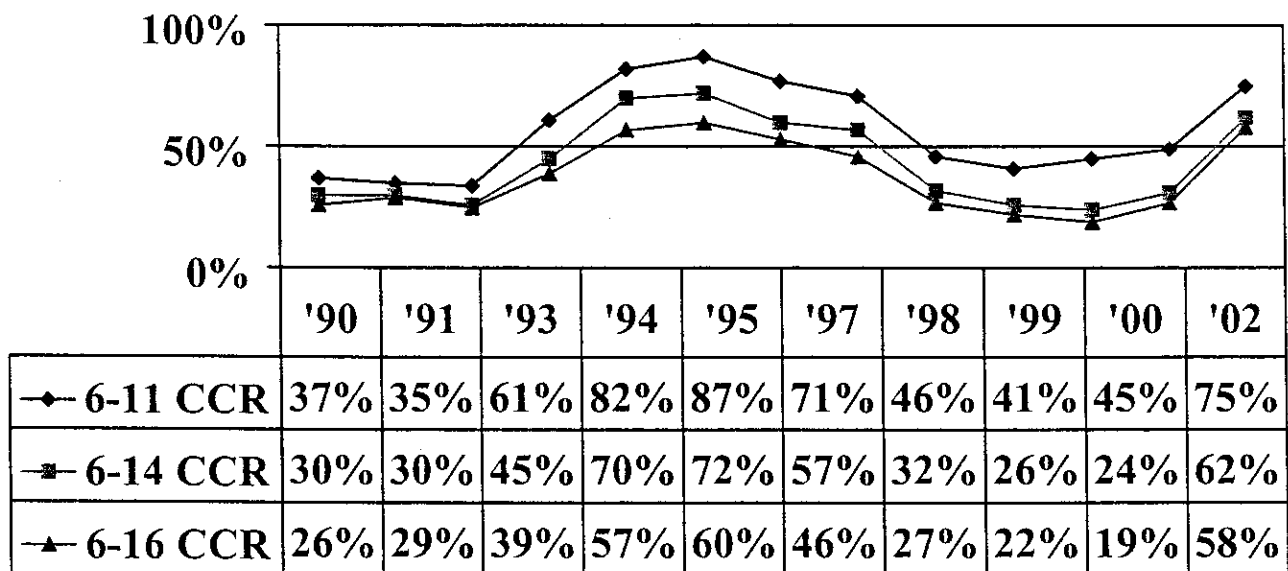
Pilots	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02
NRE Separations	1,353	1,507	1,479	751	341	304	499	629	1,030	1,117	1,087	862	301
Total NRE (no ADSC)	4519	4376	3775	2724	2258	1601	1780	1703	2233	2286	2176	1106	780
Percent	30%	34%	39%	28%	15%	19%	28%	37%	46%	49%	50%	78%	39%

The chart below shows the pilot loss rate over the last five years and the points at which pilots separate. Inventory loss trends continue to demonstrate that the points at which pilots are most likely to leave the Air Force are: 1) when their undergraduate pilot training commitment expires, 2) between the 10th and 14th year of commissioned service, and 3) after 20 years of service (retirements and promotion to Colonel).



The following graph shows the historic 6-11, 6-14, and 6-16 year pilot cumulative continuation rates. Cumulative continuation rates represent the percentage of officers entering their 6th year of service that will complete 11, 14, or 16 years of service given existing retention trends. A 27 percent cumulative continuation rate for pilots in the 6-16 year group means for every 100 pilots entering the 6th year of commissioned service, 27 would complete the 16th year, if current rates persist. FY02 data is skewed because of stop loss. However, if the economy and airline hiring remain depressed we expect retention to remain slightly above historical averages.

Pilot Cumulative Continuation Rate



The chart below is the current projection of Air Force pilot requirements and inventory. It reflects the combined rated management and retention dynamics discussed previously. The Aviator Continuation Pay program coupled with pilot production increases and other initiatives have helped to arrest inventory declines, and the pilot shortage has remained steady at approximately 9% of the requirement over fiscal years 00 and 01. High operations tempo contributed to an end of Fiscal Year (FY) 01 shortage of 1,239 pilots. By mid-2002 Air Force pilot inventory forecasts estimated the pilot shortfall would be reduced to 915. By the end of FY02 the pilot shortfall dropped to 632, 5% of the requirement. We attribute this inventory increase to the temporary decline in airline pilot hiring combined with the positive retention effects of Air Force initiatives such as Aviator Continuation Pay in addition to the Permanent Rated Recall and Rated Retired Recall programs. The effects of the 10-year active duty service commitment (instituted in FY00) are expected to take hold and have a marked (positive) influence on pilot inventory projections beginning in FY09. However, Air Force inventory forecasts estimate pilot shortfalls of approximately 600-1,260 pilots continuing through FY10.

Air Force Pilot Requirements vs. Inventory Projections

Pilots	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Requirements	13,423	13,306	13,280	13,592	13,657	13,647	13,816	13,866
Inventory	12,245	12,067	12,648	12,623	12,545	12,703	12,669	12,637
Delta	-1,178	-1,239	-632	-969	-1,112	-944	-1,147	-1,229
Percent	-9%	-9%	-5%	-7%	-8%	-7%	-8%	-9%

Pilots	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Requirements	13,876	13,876	13,876	13,876	13,876	13,876	13,876
Inventory	12,607	12,701	13,017	13,375	13,565	13,698	13,815
Delta	-1,269	-1,175	-859	-501	-311	-178	-61
Percent	-9%	-8%	-6%	-4%	-2%	-1%	0%

FY02 Aviator Continuation Pay Program

The events of 11 September 2001 had a significant effect on Aviator Continuation Pay take rates. Airline hiring freezes and furloughs, along with declining economic prospects resulted in an increase in the take rate among initially eligible pilots from 30% in FY01 to 47% in FY02. That's the good news. Unfortunately the number of pilots initially eligible to take an Aviator Continuation Pay agreement in FY02 numbered only 521 total eligibles as compared to 794 in FY01. This is because of the small numbers of pilots trained during the mid-1990s. Although the *percentage* of pilots who accepted an Aviator Continuation Pay agreement increased in FY02, the *actual number* of pilots who signed up was, in fact, only marginally larger than in FY01. In FY01, 238 pilots accepted a long-term agreement as compared to 244 during FY02. The small class sizes from the mid-1990s will continue to create challenges for the next several years. As a consequence, even if 100% of the initially eligible pilots signed an Aviator Continuation Pay agreement it still would not eliminate the Air Force pilot shortage. Thus, our retention objective, for now and the foreseeable future, is to retain as many pilots as we possibly can.

The FY02 program retained the major provisions of the FY01 Aviator Continuation Pay program, including payments to 25 years of aviation service and eligibility for colonels. Initial eligibles, i.e., pilots completing their active duty service commitment for pilot training in FY01,

continued to have the option of receiving annual installments or taking a percentage of their total bonus up front in incremental percentages including 20, 30, 40 and 50% of the agreement value in a lump-sum payment (capped at \$150,000) with the remainder paid in annual installments. Pilots already under an earlier Aviator Continuation Pay agreement were given the opportunity to amend their agreement to the new program structure. These pilots could accept a 5-year, 20 years of aviation service or 25 years of aviation service agreement and receive annual installments. Other pilots in the grade of colonel or below not receiving a bonus and past their initial active duty service commitment for pilot training could also accept an agreement in FY02, provided they were otherwise eligible. The following two tables summarize the agreement options for FY02 and the respective payment amounts.

FY02 Aviator Continuation Pay Agreement Options

Category	3-year	5-year	20 YAS	25 YAS	Remarks
Initial Eligible	X	X	X	X	- Initial eligible defined as completing Undergraduate Pilot Training service commitment in current fiscal year - Annual installments or 20%, 30%, 40%, or 50% up-front lump sum option (capped at \$150K) w/ remainder in annual installments
Currently under an earlier agreement		X	X	X	- Minimum 5-year agreement - Must incur an additional 3-year commitment beyond current commitment - Annual installments
Not under an agreement (and not initially eligible)	X	X	X	X	- Less than 24 years of aviation service (YAS) - If less than 22 YAS, minimum agreement length is 3 years - Annual installments
Colonel/colonel selects		X		X	- Less than 24 YAS - Annual installments

FY02 Aviator Continuation Pay Payment Values

Length of Agreement	Annual Payment Value**
≤ 3 years*	\$15,000
> 3 years	\$25,000

* Some agreements to 25 YAS may require less than 3-year agreements. Minimum length of any agreement is one year.

** Actual annual installment payment rate is reduced if up-front lump sum payments are taken.

FY02 Aviator Continuation Pay Program Analysis

In FY02 there were 521 initial eligibles, 302 (57.9%) took an agreement. Of the 302, 244 (46.8%) took a long-term agreement of 5 or more years.

FY02 Aviator Continuation Pay Take Rates (Fixed Wing)

	All Eligibles*	Initial Eligibles**	Amendment Eligibles	Others***
ACP Eligible	6287	475	4658	1154
Total Takers	857	268	276	313
Overall Take Rate	13.6%	56.4%	5.9%	27.1%
Long-Term Take Rate ****	N/A*****	44.5%	N/A*****	N/A*****
25 YAS	18.6%	5.5%	46%	5.8%
20 YAS	39.5%	41.1%	41.7%	36.1%
5-Year	25.6%	32.1%	12.3%	31.6%
3-Year	16.3%	21.3%	0%	26.5%

FY02 Aviator Continuation Pay Take Rates (Rotary Wing)

	All Eligibles*	Initial Eligibles**	Amendment Eligibles	Others***
ACP Eligible	505	46	409	50
Total Takers	64	35	22	7
Overall Take Rate	12.6%	76.0%	5.3%	14%
Long-Term Take Rate ****	N/A*****	70.2%	N/A*****	N/A*****
25 YAS	34.4%	14.3%	72.7%	14.3%
20 YAS	51.5%	65.7%	27.3%	57.1%
5-Year	9.4%	14.3%	0%	14.3%
3-Year	4.7%	5.7%	0%	14.3%

FY02 Aviator Continuation Pay Take Rates (Total)

	All Eligibles*	Initial Eligibles**	Amendment Eligibles	Others***
ACP Eligible	6792	521	5067	1204
Total Takers	921	302	298	320
Overall Take Rate	13.6%	57.9%	5.9%	26.6%
Long-Term Take Rate ****	N/A*****	46.8%	N/A*****	N/A*****
25 YAS	19.7%	6.3%	48%	5.9%
20 YAS	40.4%	44.2%	40.6%	36.6%
5-Year	24.4%	30%	11.4%	31.3%
3-Year	15.5%	19.5%	0%	26.2%

* Reflects FY01 total take rates for all eligibles, i.e., initial eligibles, amendment eligibles, and others

** Initial eligibles defined as those completing their ADSC for pilot training in FY01

*** Others encompasses those not under agreements who were initial eligible in previous years and members whose agreements expired and have not made a new agreement, commonly know as fence-sitters and those planning on separating or retiring

**** Includes 5-year, 20 YAS and 25 YAS agreements only

***** Long-term agreements do not carry the same meaning for more senior pilots, hence, only initial eligibles are tracked on long-term take rate

***** Amendment eligibles were not able to amend to a 3-year agreement (5-year, 20 YAS, and 25 YAS only)

The Air Force's May 2000 pilot retention study underscored the direct retention value of the Air Force Aviator Continuation Pay program. The study validated that using Aviator Continuation Pay is a fiscally sound strategy to follow. This study involved statistical regressions of several variables, their statistical significance, impact on retention, as well as the fiscal benefits of Aviator Continuation Pay to the Air Force. It concluded that "from [both] an operational and fiscal perspective, [Aviator Continuation Pay] has been successful at retaining experienced Air Force pilots and saving millions of taxpayer dollars." Specifically, the original (pre-FY00) Aviator Continuation Pay program is estimated to have retained a minimum of an additional 5% but likely closer to a high of 15%, of Air Force pilots facing their initial separation decision; this equated to saving an additional 75-225 experienced pilots per year, representing between \$440M and \$1.3B in 9-year cumulative pilot training replacement costs. This 5-15% impact is a reasonable factor to apply to the FY02 Aviator Continuation Pay program's impact on the 521 initial eligible pilots last year, resulting in likely savings of approximately 80 experienced initial eligible pilots, representing approximately \$480M in saved cumulative training costs.

Summary

Aviator Continuation Pay remains a key element in the Air Force's multi-faceted approach to cope with the ongoing pilot shortage until fully benefiting from sustained high pilot production and the increased active duty service commitment for pilot training implemented in FY00. Moreover, the ability to retain experienced aviators is more important than the ability to train new aviators. The high cost, both in terms of years and dollars, necessary to develop an experienced aviator amplifies the importance of retaining experienced personnel versus training new personnel. Despite the downturn in airline hiring, now is not the time to reduce pilot retention efforts.

Initiatives like allowing rated personnel to continue to accrue operational flying duty accumulator (OFDA) credit while assigned to operate unmanned aerospace vehicle (UAVs) and increasing Aviation Career Incentive Pay (ACIP) are crucial to the long-term health of the rated force.

In April of FY02, the SecAF made the decision to grant eligibility for OFDA gate credit to rated officers (pilots and navigators) who are assigned to units that operate unmanned aerial vehicles (UAVs). Provided all other criteria for maintaining an aeronautical rating have been met, persons performing UAV operator duties are eligible for OFDA credit. This policy change removed the disincentive for being assigned to UAV billets and ensures rated officers who have the qualifications to successfully lead and conduct their missions operate our manned and unmanned aircraft.

Our planned initiative to increase ACIP is an effort to recover the eroding value of ACIP as a percentage of regular military compensation (RMC) and improve its use as a tool to attract and retain aircrew. The 1990 value of ACIP was 19.9% of RMC for personnel at their "stay or go" decision point--today it's 12.4%. Our proposal will raise ACIP's RMC percentage value to 15%.

Our plan seeks to modify Title 37 of the United States Code, section 301a, by altering ACIP in the following ways: 1) combining the "2 or less" and "over 2" categories into a single "less than or equal to 3 years" category, 2) increasing the "over 6" category by 10%, and 3) by deleting the ACIP ramp down after 22 years of aviation service. The average cost to produce an experienced pilot is approximately \$6M. We would have only needed to influence 5 pilots per year to stay in the Air Force to be worth the dollars spent. We estimated up to a 1% increase in retention resulting from the ACIP increase. This proposal would cost the Air Force \$20M in the first year, however, it would save \$30M dollars per year in training costs.

Aviation Career Incentive Pay and the Aviator Continuation Pay programs continue to prove their value as viable, cost-effective, and vital means to positively influence the retention behavior of experienced Air Force aviators, ensuring better force predictability and ultimately protecting inventory and combat capability.

30 January 2003
N131V/693-2306
CDR J.W. Dziminowicz

INFORMATION PAPER

ASSISTANT SECRETARY OF THE NAVY (M&RA)

SUBJECT

ANNUAL REPORT ON AVIATION CAREER INCENTIVE PAY (ACIP) AND
AVIATION CONTINUATION PAY (ACP)

PURPOSE

To provide information to satisfy requirement for annual report to Congress on FY-02 ACIP waivers and FY-02 ACP program due to OSD by 14 February 2003.

BACKGROUND

Title 37, U.S.C. Sections 301a(f) and 301b(i) require the Secretary of Defense to submit an annual report to Congress each year on waivers granted by the Service Secretaries to the ACIP operational flying duty requirements (gates), and on the effectiveness of the preceding year's ACP program on aviator retention. In addition to ACIP waiver information, the report must include the following minimum information:

1. A brief history of the Navy's use of ACP through FY 2001, followed by a detailed description of the FY-02 ACP plan to include:
 - (a) Annual dollar amount of each contract term offered.
 - (b) Payment method.
 - (c) Short description of how dollar amount and service agreement term was derived at as the most efficient means to effect the desired continuation in the eligible population.
2. Retention objectives required and attained over the preceding three fiscal years, including a description of the increased retention of aviators as a result of the ACP program.
3. A table showing the FY 2002 ACP eligible population, required number of takers and actual number of takers arrayed by aviation specialty - fixed wing, rotary wing and propeller.

4. A table showing the number of aviator resignations in FY 2002 (not including retirements) and a chart depicting the loss rate for aviators in FY 2002, to include retirements, displayed as years of commissioned service. Loss rate chart will display the number of aviators eligible to separate and how many actually left to include retirements. For comparative purposes, prior year loss rates and a short discussion on the inventory loss trends is included.
5. An aviator objective force profile (OFP) at the beginning of FY 2002 and at the end of FY 2002 including inventory through 25 years of service. Aviator requirements line shows on the OFP (the number of non-flying (staff) billets will be included in the total requirements line). A narrative addressing aviator inventory shortages accompanies the OFP.

DISCUSSION

The Navy offers both ACIP and ACP to eligible personnel as a retention incentive. The practice of providing additional pay to military personnel for undertaking flying duty has a long tradition. The primary form of this pay is ACIP, which replaced previous programs with the adoption of the Aviation Career Incentive Act of 1974. The rate at which aviators are compensated through flight pay has been adjusted over the years, most recently in October 1998, to maintain the viability of ACIP as a retention tool. In order for an aviator to remain eligible for continuous ACIP, that officer is required by law to meet minimum operational "flight gate" requirements. These flight gates have been redefined over the years and fall into the following three distinct categories. The "old gate" system applied to aviators entering aviation service prior to 3 October 1979. A "new gate" system was adopted for aviators entering aviation service after 2 October 1985. A "transitional gate" system applied to aviators beginning aviation service between 1979 and 1985.

AVIATION CAREER INCENTIVE PAY (ACIP) GATE WAIVERS

There were no ACIP gate waivers approved by the Secretary of the Navy (SECNAV), via the Assistant Secretary of the Navy for Manpower and Reserve Affairs (ASN(M&RA)), in FY-02.

AVIATION CONTINUATION PAY (ACP) PROGRAM

1. Brief history of the Navy's use of ACP.

During the late 1970's, retention of naval aviators fell to unacceptable levels. In order to increase retention and meet operational requirements, the Navy requested and received Congressional authorization to implement an aviator retention bonus program. The following is a brief overview of the Navy's aviation retention bonus programs from FY 81 to the present:

a. FY-81: Aviation retention bonus (Aviation Officer Continuation Pay-AOCP) first authorized for Navy. All eligible aviators were offered a retention bonus. Agreement lengths: 1, 2, 3, or 4 years. Bonus amounts were based on percentage of base pay and higher amounts were awarded for junior aviators.

b. FY-82: Same as FY-81 program. Aviation Career Incentive Pay (ACIP-"Flight Pay") limited to 1981 rate for those who accepted 1982 AOCP bonus (\$306/mo versus \$400/mo new ACIP rate).

c. FY-83: Program not authorized.

d. FY-84: Revised original AOCP program. Agreement lengths: 3, 4, or 6 years. Fixed payment rates depending on length of agreement: 3 year agreements-\$4,000/year; 4 and 6 year agreements-\$6,000/year.

e. FY-85: Payment rates and agreement length same as FY-84 program; however, for the first time not all aviators were eligible. FY-85 AOCP targeted to specific shortfalls and eligibility restricted principally to carrier based communities. 100% lump sum payment option offered to carrier based tactical aviation communities.

f. FY-86: Same as FY-85 program.

g. FY-87: Same as FY-86 program.

h. FY-88: ACIP offset eliminated. Program was still targeted, however most pilot communities were eligible.

i. FY-89: First Quarter: Extension of FY-88 program.

j. FY-89: Second through Fourth Quarter: Introduced new aviation retention bonus program, Aviation Continuation Pay (ACP). Maximum annual payment rate doubled. Two

categories of agreement authorized: 1) maximum payment for long-term agreements (to completion of 14 years commissioned service) for \$12,000 per year; 2) maximum payment for short-term agreements (1 or 2 years) at \$6,000 per year. Strict targeting based on demonstrated shortage in each community. Payment rates were based on degree of aviator shortage. Using Center of Naval Analysis (CNA) recommendations, communities with greatest shortages received highest rates. 50% lump sum payment authorized.

k. FY-90: Same as FY-89 program except one year short term agreement option eliminated (determined not to be cost effective).

l. FY-91: Same as FY-90 program.

m. FY-92: Continued the FY-91 program with a few exceptions. HSL agreement reduced from \$9K to \$6K and NFO bonuses in the following communities; VAW, VAQ and VQ (Prop and TAC) were reduced from \$6K to \$3K.

n. FY-93: Initially offered only short-term contracts. NFO, helicopter, and Patrol (VP) pilot agreements eliminated. VA and VS pilot agreements reduced from \$12K to \$9K. VQ (prop & TAC) pilot agreements increased from \$10K to \$12K. A mid-year review procedure was established to allow for the adjustment of bonus amounts and eligibility during the fiscal year.

FY-93 mid-year review: Reserve officers became ineligible for the bonus due to the involuntary release of reserve officers. VA pilots eliminated from bonus eligibility due to the impending decommissioning of the VA community.

o. FY-94: VF pilot agreements reduced from \$12K to \$6K, VAW pilot agreements eliminated, HM pilot agreements reinstated at \$9K and VS pilot agreements increased from \$9K to \$12K.

FY-94 Mid-year review: Pilots not serving under an ACP agreement and selected for transition to bonus eligible communities were allowed to apply for ACP.

p. FY-95: Program selected aviators whose Active Duty Service obligation (ADSO) expired in FY-95. The ACP selections were based on Department Head (DH) requirement quotas. VF, VA, and HM bonuses discontinued. VS and VQ (Jet) were reduced from \$12K to \$9K. VAW bonus reinstated at \$4K. Naval Flight Officers remained ineligible.

FY-95 mid-year review: Opened up program to Pilots completing ADSO in FY94-95 due to quotas not being met.

q. FY-96: The program selected pilots whose ADSO ended during FY93-96. The HM and HS communities warranted the bonus but were not offered one due to budget constraints. VF reinstated bonus to \$12K, VAW increased to \$8K, and VS and VQ Jet increased to \$12K. NFOs remained ineligible due to fiscal constraints.

FY-96 mid-year review: Program canceled due to fiscal constraints.

r. FY-97: The FY-97 program included four new eligible communities: VAQ NFO, VQ Prop Pilot, VQ Prop NFO, and HS Pilot. VQ jet pilot and VAW pilot, eligible under the FY-96 program, were not eligible for ACP in FY-97. All eligible communities were offered \$12K annually, except HS pilot (\$10K) and VQ Prop pilot (\$9K).

FY-97 mid year review: No changes made.

s. FY-98: The FY-98 program targeted eligible aviators who were up for Department Head in FY-01. Fixed wing pilot communities and VAQ NFO's were offered between \$10K to \$20K per year to 14 years commissioned service. The decision to offer contracts to all eligible vice "only enough to meet goal" eliminated the perception in the fleet that receiving an ACP award was effectively a pre-screen for Department Head. HSL pilot and VQ (prop) NFO retention rates warranted ACP in FY-98 but were not included due to fiscal constraints. FY-98 was the fourth consecutive year the Navy failed to meet its ACP take rate goal.

t. FY-99: The FY-99 program represented a new direction in aviation bonuses by targeting all eligible aviators, YG-87 and junior complete with MSR, to meet both 2nd Sea tour and Department Head requirements. The program offered \$12K per year for two-year contracts to all eligible aviators regardless of community. The eligible population encompassed YG's 87-92 and represented those aviators approaching either their 2nd Sea or Department Head tour. This program was designed in response to a need to both increase aggregate aviator retention and meet Department Head requirements. The FY-99 retention bonus also served as a transition program to Aviation Career Continuation Pay implemented in FY-00.

u. FY-00: Navy implemented a new and innovative ACP program in FY-00 called Aviation Career Continuation Pay (ACCP). The philosophy behind ACCP represented a significant departure from previous aviation bonus programs in that for the first time, Navy targeted aggregate aviator retention through 25 years of aviation service. With

aggregate shortages exceeding 1000 pilots and Naval Flight Officers, the Navy sought to entice highly qualified aviators to choose Navy as their primary career choice. The FY-00 program was designed to address the expressed retention concerns of aviators by compensating eligible aviators for assignment to sea duty and command by offering a series of short-term bonuses throughout a due course career.

In order to implement this program, the Navy led a multi-service initiative to expand ACP legislative authority in FY-00. The result of this effort was reflected in the FY-00 National Defense Authorization Act, which adopted the Navy's proposed changes to title 37, section 301b, of United States Code. The changes to title 37 granted Service Secretaries discretion to pay a retention bonus of up to \$25,000 per year for each year agreed to remain on active duty for aviators who have completed their minimum service requirement but have less than 25 years of aviation service. The Navy used this new authority to specifically target aviators assigned to sea duty and command billets to increase retention of both junior and senior aviators.

The original FY-00 ACCP program initially offered short-term (2-3 year) contracts for up to \$15K per year for eligible pilots or Naval Flight Officers assigned to sea duty through Post Command Commander (O-5). However, to increase lower than desired take rates among junior first time bonus eligible officers and retain more senior aviators to fill critical leadership billets afloat, the FY-00 ACCP program was modified mid year.

The enhanced FY-00 program, implemented in July 2000, offered a five-year option to first time eligible aviators in year group (YG)-89 and junior. This long-term offer consisted of \$25,000 per year for pilots and \$15,000 per year for Naval flight Officers with an option to collect 50% up front via a lump sum payment. Additionally, eligibility was extended to all aviators filling designated command billets ashore or afloat including Captains (O-6) with less than 24 years of aviation service.

v. FY-01: The FY-01 ACP program was a follow-on to the FY-00 modified program as described above and continued to consist of a tiered bonus system tied directly to force structure and targeted to initial eligible aviators, sea duty and command ashore or afloat. Rates were either \$15,000 or \$25,000 annually and payments were offered as 50% lump sum for long-term (five-year) contracts and annual payments for all others (two-year, 30 month or three-year contracts).

ACCP continued to be structured to offer the greatest incentives to aviators approaching the completion of their initial service obligation incurred for initial flight training. At this point, the Navy offered a five-year bonus of \$25,000 per year to pilots and \$15,000 per year to NFO's. Additionally, aviators in YG-90 and junior, previously under FY-99 ACP contracts, were offered a three-year bonus of \$25,000 per year to pilots and \$15,000 per year to NFO's. This three-year option was offered in order to allow an equitable transition to ACCP for those aviators approaching their department head tours.

Tied to operational flying and non-flying positions, there were five additional levels where ACCP was offered to eligible aviators (O-6 and below complete with initial service obligation and assigned to a designated billet) beginning at the second, or disassociated sea tour, and ending at Major O-6 Command ashore or afloat. The dollar amount for these contracts was \$15,000 annually and obligated these aviators to remain on active duty for two to five-years depending on the billet assigned.

Payment rates and service agreement terms were derived as a result of fiscal constraints and Center for Naval Analyses (CNA) study via the FY-00 ACCP program, the year ACCP was first introduced.

2. Description of the FY-02 ACCP program.

The FY-02 ACCP program exactly mirrored the FY-01 program with the only exception the addition of the one year early payment option for the initial eligible three and five year ACCP contracts. The FY-02 National Defense Authorization Act (NDAA), Section 301b(b) 4 of Title 37, U.S. Code was amended to allow the services to pay aviation bonuses one year prior to the end of an Officer's ADSO from winging. The early payment option provided substantial additional financial incentives prior to or during the period when an aviator is making the critical stay-leave decision. With current 9-12 month advance notice requirement for resignations, the early payment option presented a significant retention opportunity prior to the

resignation window and was incorporated in the FY-02 ACCP program.

3. Retention objectives required and attained over the preceding three fiscal years (FY-00 through FY-02), including a description of the increased retention of qualified aviators as a result of the FY-02 ACCP program.

The Navy's aviator retention requirement is historically based on Department Head requirements in both Fleet and Fleet Replacement Squadrons (FRS). Department Head billets require officers in the grade of Lieutenant Commander (11-13 years of commissioned service) who have acquired the breadth and depth of experience as officers and aviators necessary to function in a variety of roles in operational squadrons. For this reason, the Navy measures aviator retention from 7 to 12 years of service to ensure these requirements are met.

ACP programs prior to FY-99 were reactive in nature in that they were formulated on historic retention vice projected trends. The retention challenges of strong airline hiring, a strong economy and a force structure approaching steady state made it necessary to address aggregate aviator retention. This is particularly true over the next several years in order to mitigate the significant retention challenges associated with under accessed YG 93-95. (These low accessed year groups, often referred to as the "T-Notch," are the result of mid-nineties "draw down" decisions where aviator accessions were reduced to help meet manpower ceilings).

The Navy historically paid bonuses only to meet Department Head requirements after it was determined that the required retention exceeded observed retention. However, the ACP program failed to meet quotas in many targeted communities over the previous four years and did not address the need to meet aggregate requirements. The FY-00/02 ACCP programs, with their unique approach, were well received by fleet aviators and were successful in meeting aggregate aviator requirements.

The FY-02 program resulted in an 11% increase (from 31% to 42%) in aggregate aviator retention over pre-ACCP levels. Although retention met aggregate requirements, required retention will more than double to 85% by FY-05. This requirement is due to the impact of the "T-Notch" as these year groups move into Department Head billets. Many platform specific communities will require more than 100% retention, reflecting first tour accessions that were already less than Department Head requirements. It is therefore necessary to achieve retention rates greater than historic levels over the next five years. By retaining more aviators in larger more senior year groups now, personnel managers will be better equipped to mitigate the impending shortfalls.

Naval Aviator 7 to 12 year Cumulative Continuation Rates (CCRs) are compared in Table 1 to required retention to Department Head. As a measure of retention behavior, CCRs demonstrate the propensity of an officer in the seventh year of commissioned service to remain on active duty through the 12th year thereby fulfilling the applicable Department Head tour.

TABLE 1
NAVAL AVIATOR CUMMULATIVE CONTINUATION RATES

	FY00	YG89	FY01	YG90	FY02	YG91
FISCAL YEAR	2000	2000	2001	2001	2002	2002
CCR / CR*	Actual	Required	Actual	Required	Actual	Required
ALL AVIATORS	41%	35%	37%	38%	42%	45%
ALL PILOTS	39%	38%	33%	38%	38%	51%
JET PILOTS	43%	56%	29%	72%	35%	79%
PROP PILOTS	36%	23%	20%	22%	22%	57%
HELO PILOTS	39%	44%	46%	37%	49%	48%
ALL NFOS	43%	28%	45%	34%	47%	39%
JET NFOS	48%	28%	43%	34%	56%	40%
PROP NFOS	36%	27%	47%	35%	39%	38%
Sub-Community Pilot						
VFA (F/A-18)	37%	82%	38%	98%	42%	75%
VF (F-14)	58%	26%	21%	38%	48%	62%
VS (S-3)	34%	38%	23%	93%	4%	57%
VAW (E-2C)	43%	49%	31%	25%	15%	50%
VAQ (EA-6B)	63%	131%	46%	81%	57%	155%
VP (P-3)	33%	16%	16%	16%	23%	31%
VQ PROP (EP-3)	41%	110%	31%	122%	33%	100%
VQ TAC (E-6A)	41%	77%	17%	45%	11%	42%
HS (H-3, H-60)	48%	46%	40%	41%	39%	49%
HM (H-53)	24%	50%	60%	29%	53%	54%
HSL (H-2, H-60)	35%	36%	45%	45%	51%	56%
HC (H-46, H-3, H-53)	42%	37%	53%	35%	27%	35%
Sub-Community NFO						
VF (F-14)	55%	23%	47%	22%	52%	29%
VS (S-3)	47%	21%	37%	33%	47%	33%
VP (P-3)	37%	18%	50%	36%	38%	18%
VAQ (EA-6B)	48%	42%	46%	44%	63%	66%
VAW (E-2C)	36%	54%	36%	26%	37%	32%
VQ PROP (EP-3)	33%	54%	72%	70%	37%	50%
VQ TAC (E-6A)	50%	33%	32%	50%	75%	46%

*Note: Actual Cumulative Retention Rate (CCR) derived from computing retention over the preceding 12 months for Year Groups with 7-12 years of aviation service for each category. Required Continuation Rate (CR) derived by computing required inventory from the targeted year group of FY minus 11 years to meet Department Head requirements for that Fiscal Year.

4. Table depicting ACP required takers and the actual number of recipients arrayed as applicable.

The FY-02 ACCP program was targeted to all pilots and NFOS complete with Active Duty Service Obligation (ADSO) but less

than 24 years of aviation service and assigned to sea duty and/or Command. The long-term contract goal of 307 first time bonus eligible aviators represents 47% of the 647 eligible aviators making their initial retention decision. The goal for short-term contracts reflects the number of targeted sea duty Command billets plus a rollover factor to account for aviators moving into or out of those eligible billets throughout the year. The one-year early option was successful in contracting 207 initial eligible aviators (28% of the 752 eligible). This take rate is expected to increase this year as this new program becomes more familiar throughout aviation. Table 2a depicts FY-02 ACCP agreements and eligible populations by contract type.

Per Table 2b, the FY-02 ACCP program was successful by contracting a total of 1053 aviators (79% of 1337 projected). This response has allowed the Navy to better meet operational sea tour billet requirements. However, only 275 (164 pilots and 111 NFO's) of the 647 first time bonus eligible junior aviators elected to take the long-term five-year bonus. While this take rate will be adequate to meet Department Head requirements in FY-01 and FY-02, it falls below the desired take rate needed to help offset shortages associated with the low accessed "T-Notch" year groups who are now approaching the end of their initial service obligation.

TABLE 2a
FY-02 ACCP AGREEMENTS AND ELIGIBLE POPULATIONS BY CONTRACT TYPE

Contract Type	Pilot Takers	NFO Takers	Total Takers	Total Eligible	% Attained
Long-Term (5yrs)					
Junior Officers Complete with Minimum Service Requirement	164	111	275	647	43%
Mid-Term (3yrs)					
Aviators Complete w/Min Service Requirement, Not Opting for 5 Year	20	19	39	647 **	6%
Short-Term (1-3 yrs)					
Aviators serving in sea duty and Command billets	322	210	532	813	65%
Long-Term Early (5yrs)					
Junior Officers w/in 1 YR of Completing Minimum Service	129	78	207	750	28%
TOTAL	635	418	1053	1460	72%

** The same Cohort of Initial Eligibles can take either 5 Year or 3 Year Contracts.

TABLE 2b
FY-02 ACCP PROJECTED vs. ACTUAL TAKERS BY CONTRACT TYPE

FY-02 ACCP (new contracts)	Pilot Projected	Pilot Actual	NFO Projected	NFO Actual	Total Projected	Total Actual
2nd Sea Tour	58	52	124	58	182	110
DH	210	58	175	35	385	93
Astronaut	2	2	1	0	3	2
NCMDO-5 @ Sea	24	31	19	33	43	64
O-5 CMD	73	105	29	41	102	146
Post CMD O-5	22	35	18	18	40	53
O-6 @ SEA + Maj CMD	33	39	11	25	44	64
FY-02 Short Term Total	422	322	377	210	799	532
Long Term (5 / 3 YR)	170	184	100	130	270	314
FY-02 Early Takers (FY-03 MSR)	151	129	117	78	268	207
FY-02 Total	743	635	594	418	1337	1053

Similar to the FY-98 through FY-01 ACP/ACCP programs, total ACCP agreements by community as depicted in Table 2c were not limited.

TABLE 2c
FY-02 ACCP AGREEMENTS ARRAYED BY COMMUNITY

Community	Short-Term Takers			5-Year Takers			3-Year Takers			Early (5&3 Year) Takers			Total Takers
	Pilot	NFO	Total	Pilot	NFO	Total	Pilot	NFO	Total	Pilot	NFO	Total	
HC	36	0	36	25	0	25	2	0	2	13	0	13	76
HM	5	0	5	3	0	3	0	0	0	6	0	6	14
HS	31	0	31	13	0	13	0	0	0	10	0	10	54
HSL	54	0	54	31	0	31	0	0	0	37	0	37	122
VAM	5	6	11	0	0	0	1	0	1	0	0	0	12
VAQ	19	38	57	5	16	21	2	2	4	6	20	26	108
VAW/VRC	22	34	56	16	9	25	1	2	3	7	8	15	99
VF	21	36	57	7	8	15	4	3	7	6	7	13	92
VFA	75	1	76	18	0	18	3	0	3	22	0	22	119
VP	26	42	68	30	33	63	3	4	7	18	15	33	171
VQ(P)	7	12	19	7	13	20	1	3	4	0	13	13	56
VQ(T)	4	6	10	6	9	15	3	1	4	2	7	9	38
VS	15	35	50	3	23	26	0	4	4	2	8	10	90
NASA	2	0	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2

5. The number of aviator resignations and the loss rate for aviators in FY-02, to include retirements, displayed as years of commissioned service.

Tables 3 and 3a depict aviators eligible to resign or retire in FY-01 and FY-02 versus actual losses, resignations and retirements, by years of commissioned/aviation service (YCS/YAS).

TABLE 3
FY-01 AVIATOR LOSSES (Resignations and Retirements)

YCS/YAS	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	Total
FY-01 Aviators Eligible to Resign or Retire	35	174	442	586	508	441	325	375	351	385	217	305	318	273	211	172	130	118	89	5456
FY-01 Aviator Actual Resigs	1	19	131	170	103	39	9	47	13	6	0	0	0	0	0	0	0	0	0	538
FY-01 Aviator Actual Retired	2	1	1	4	4	0	5	3	3	5	3	3	12	47	22	23	21	13	14	186
Total Losses	3	20	132	174	107	39	14	50	16	11	3	3	12	47	22	23	21	13	14	724
Loss Rate (%)	0	11%	30%	30%	21%	9%	4%	13%	5%	3%	1%	1%	4%	17%	10%	13%	16%	11%	16%	13%

TABLE 3a
FY-02 AVIATOR LOSSES (Resignations and Retirements)

YCS/YAS	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	Total
FY-02 aviators eligible to Resign or Retire	0	71	162	264	471	400	239	107	132	338	353	317	124	200	262	237	197	161	112	4197
FY-02 Aviator Actual Resigs	0	4	51	122	161	34	12	11	9	4	3	0	0	0	0	0	0	0	0	411
FY-02 Aviator Actual Retired	0	0	0	7	3	2	4	3	3	0	5	4	29	93	23	21	14	13	19	252
Total Losses	0	4	51	129	164	36	16	14	12	13	3	4	29	93	23	21	14	13	19	663
Loss Rate (%)	0	6%	31%	49%	35%	9%	7%	13%	7%	4%	2%	1%	23%	47%	9%	9%	7%	8%	17%	16%

6. Aviator objective force profile (OFP) depicting beginning and ending FY-02 inventory against total requirements through 25 years of aviation service.

Aviator inventories, pilot and NFO, are measured as members of specific year group cohorts, which also correspond to the number of years of aviation service. Aviators in the first year of aviation service reflect the number of student pilots and NFO's accessed to begin aviation training. Annual Aviator accession requirements are based on the minimum number needed to meet first tour operational squadron requirements plus projected attrition during training. This equates to a steady-state accession goal of 1289 (878 pilot and 411 NFO) student aviators annually. Of the 1289 students accessed, approximately 1000 (680 pilots and 319 NFO's) will successfully complete training and fulfill first sea and first shore tour aviator requirements

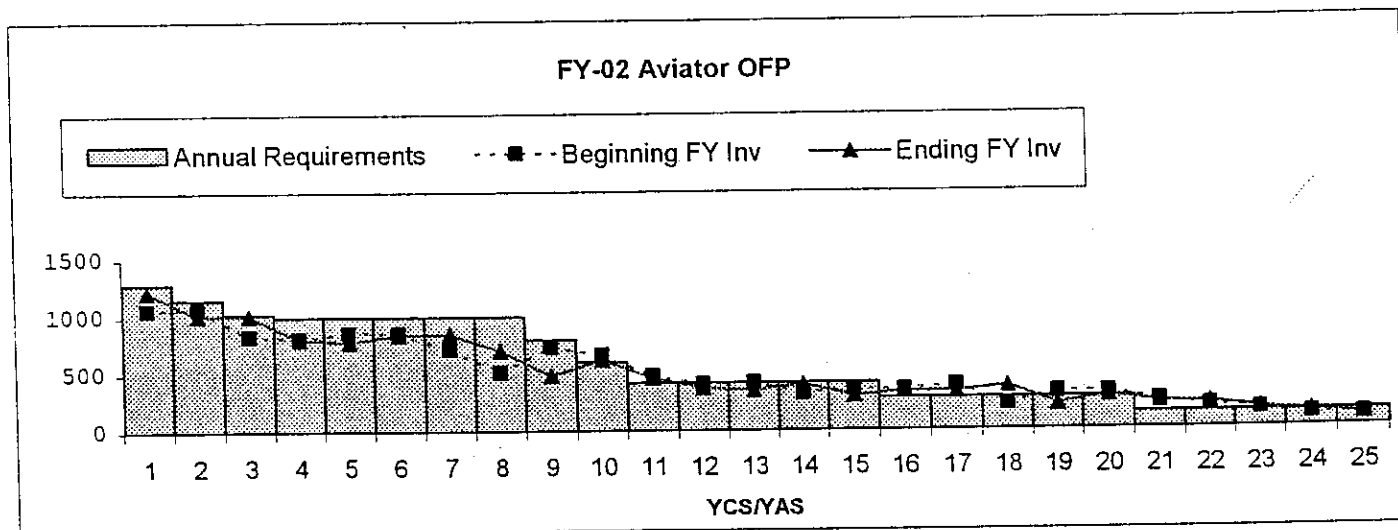
(YCS/YAS 3-8). These Fleet requirements are driven by crew seat ratio and prescribed tour lengths.

Pre-draw down year groups were accessed at numbers exceeding the current steady state requirements, while draw down and post draw down year groups were significantly under accessed. Low accessed YG 93-95 comprise the "T-Notch" due to the resulting "T" shape in aviator manpower graphs. In FY-02, the Navy met the steady-state requirements for the first time since the force draw down of the early nineties.

With steady-state accessions, the Navy needs to retain up to 42% of year group cohort aviators through 14 years of service to meet annual mid-grade sea and shore requirements. At a minimum, the Navy must retain 38% of these aviators, in the aggregate, to meet annual steady-state operational Department Head requirements (YCS/YAS 11-13). By comparison, the "T-Notch" year groups will have to be retained at rates up to 85% in the aggregate to meet Department Head requirements beginning in 2005. For this reason, the Navy is striving to retain more aviators in robust "pre T-Notch" year groups over the next few years.

The Objective Force Profiles (OFP) for FY-02, Table 4, demonstrates both the impact of under accessions (T-Notch year groups/YAS 5-8) and low retention. The FY-02 ACCP program demonstrates Navy's commitment to ensuring high quality aviators are available to fill operational sea billets and production oriented flight training billets ashore as well as follow-on leadership positions. There is little change in three through seven years of aviation service when aviators are under Active Duty Service Obligations (ADSO) for undergraduate flight training. After the seven-year point, resignations begin to impact year group inventories.

TABLE 4
AVIATOR OBJECTIVE FORCE PROFILE (FY-02)



SUMMARY

The Navy's current ACCP program remains a key element of the Navy's retention effort to ensure a sufficient inventory of aviators is available to meet Department Head and other requirements. The Navy is encouraged by the increase in aggregate retention in FY-02 in comparison with pre-ACCP levels, but must continue efforts to improve retention and offset impending shortages associated with the "T-Notch."

The expanded ACP legislative authority enacted in the FY-00 National Defense Authorization Act and continued in FY-01 and FY-02, greatly improved the Navy's ability to target retention bonuses where required (throughout an aviator's career). The FY-02 Aviation Career Continuation Pay program answered the concerns of Fleet aviators with previous bonus programs and as a result, increased aggregate retention by 11% over pre-ACCP levels. The Navy exercised discretion in not utilizing full legislative authority for its FY-02 program in order to retain the flexibility under existing law to modify its aviation bonus program as required to meet today's challenging retention environment.

1. Marine Corps ACP History

Marine Corps Aviation Continuation Pay (ACP) was first implemented in FY90, and has been used every year since to combat shortages in aviation specialties. From FY90 to FY96, we employed the short term ACP program (\$6,000 per year for a two year service agreement). Although the long term option was available, we chose the shorter contracts for three main reasons. First, we believed that a two year contract would avoid obligating the Marine Corps to budget outlays which might prove to be unnecessary several years in the future if retention behavior changed. Second, we did not have current experience with the impact of large bonuses on force profile. We felt it was prudent to evaluate the effects of the short term program before committing to a long term bonus based on the recent \$3,000 annual increase in Aviation Career Incentive Pay (ACIP). Third, we were concerned that the large pay disparity between Aviation and Ground military occupational specialties (MOS), that would result from the use of the long term bonus, would have a divisive influence on our officer corps. Our goal was to minimize divisiveness with a short term, more cautious plan. ACP was offered to 11 aircrew communities in FY90 and showed encouraging results, with approximately 82 percent of eligible officers participating in the program.

The FY97 ACP program represented a fundamental shift in philosophy for the Marine Corps. The long term bonus (commitment out to 14 years of commissioned service (YCS)) was instituted exclusively and approved by DoD, and six communities were offered ACP. Annual installments of \$12,000 was paid for their obligation. Two additional communities were added during the year due to significant changes in their retention. While concerns still existed about the potential divisive impact on our officer corps, the prospect of severe aviator shortages made this an essential change. Commercial aviation opportunities were still high, and the Marine Corps was the only Service not using long term ACP to 'lock-in' pilot inventory through the bulk of the flying years. The relatively small size of our pilot communities in relation to commercial hiring capacity made it even more advisable to take advantage of the longer service agreements to protect the pilot population to the greatest extent possible.

During FY98, the Marine Corps offered ACP to aviators similar to the previous year's program. All aviation specialties, with the exception of EA-6B pilots, were initially offered ACP based on the Marine Corps' definition of a balanced MOS; a balanced MOS is manned at between 95 and 105 percent of inventory requirements. During November 1997, EA-6B pilots were included as an eligible aviation specialty. The decision to include EA-6B pilots was due to fact that the EA-6B pilot resignation rate in FY97 was the highest among all the fixed wing communities, and if this trend continued, it could quickly become a problem given the small size of the community (69 officers). The FY99 ACP program remained similar to the FY98 ACP program with all aviation specialties being designated short.

The intent of the Marine Corps FY00 ACP plan was to provide a proactive career incentive for Marine aviation officers that choose a career (usually when the officer has completed 10 or 11 years commissioned service) in Marine Aviation once they have achieved the grade of major. The FY00 proposal applied several of the newly passed legislative changes allowing eligible officers the opportunity to apply for successive ACP contracts throughout the officer's career up

to the promotion eligibility zone for colonel. Contract amounts varied based on community. Fixed wing pilots were offered \$18,000 annual installments, rotary wing pilot's rate was \$9,000 per year, while the naval flight officers were offered \$6,000 annual installments. Officers currently on ACP were provided the opportunity to convert to the FY00 ACP program if they would extend their current contract obligation. No ACP contracts were approved for less than a 12 month period.

The FY01 ACP plan made some variations to the previous year's program. Major selects joined the eligible category, once they completed their initial flight training service obligation. Two ACP contract options were offered for Majors and Major (sel); a short term contract for three years, or a long-term contract where the aviator must commit to 16 YCS. For the LtCols only the short term option was available. Obligations and contracts were written out to the beginning of 22 YCS. Table 1 depicts the annual bonus amounts by community which remained unchanged into FY02.

The Marine Corps' FY02 ACP program was basically a continuation of the FY01 plan. The uncertainty in the economy and an attempt to provide stability into the ACP program were paramount in the decision. The only change occurred in August 2002, when funding became available to institute the early contract writing authority granted in the FY02 National Defense Authorization Act. This authority primarily impacts the fixed wing community who have the longest initial service obligations. The following information outlines the results of the FY02 program.

Table 1. Marine Corps Aviation Specialties by Type Community.

AIRCRAFT	MILITARY OCCUPATIONAL SPECIALTIES (MOS)	SHORT-TERM CONTRACT AMOUNT (36 MONTHS)	LONG-TERM CONTRACT AMOUNT (TO COMPLETE 16 YCS)	PAYMENT METHOD
FW PILOT				ANNUAL INSTALLMENT
AV-8B	7509	\$18,000	\$25,000	ANNUAL INSTALLMENT
F/A-18	7523	\$18,000	\$25,000	ANNUAL INSTALLMENT
EA-6B	7543	\$18,000	\$25,000	ANNUAL INSTALLMENT
KC-130	7557	\$18,000	\$25,000	ANNUAL INSTALLMENT
RW PILOT				ANNUAL INSTALLMENT
MV-22	7532	\$9,000	\$12,000	ANNUAL INSTALLMENT
CH-46	7562	\$9,000	\$12,000	ANNUAL INSTALLMENT
UH-1	7563	\$9,000	\$12,000	ANNUAL INSTALLMENT
CH-53D	7564	\$9,000	\$12,000	ANNUAL INSTALLMENT
AH-1	7565	\$9,000	\$12,000	ANNUAL INSTALLMENT
CH-53E	7566	\$9,000	\$12,000	ANNUAL INSTALLMENT
NFO				ANNUAL INSTALLMENT
WSO F/A-18D	7525	\$6,000	\$12,000	ANNUAL INSTALLMENT
ECMO EA-6B	7588	\$6,000	\$12,000	ANNUAL INSTALLMENT

2. Retention Objectives FY00 to FY02.

The following tables depict the take rates for the past three fiscal years. Take rate percentages are given for those officers "On ACP" divided by those officers eligible (Inv Eligible) for an ACP contract at the end of the year. Due to changes in both the ACP program and the initial service obligation as a result of Title 10 changes, the eligible populations are not comparable across the FY, therefore just percentages are shown.

FY00 was the first year lieutenant colonels were offered ACP contracts. The fixed wing pilot community is still a major concern. Due to years of higher than planned attrition, the eligible populations in the fixed wing community are not sufficient to meet total requirements. However, this does not impact the Marine Corps filling all required cockpit seats. The rotary wing and NFO communities make up the difference in the total requirements by filling an additional percentage of staff billets.

Table 2. Take Rates for Majors.

	FY00	FY01	FY02
ALL AVN	87%	87%	87%
FWP	82%	72%	70%
RWP	90%	94%	95%
NFO	87%	87%	90%

Table 3. Take Rates for Lieutenant Colonels.

	FY00	FY01	FY02
ALL AVN	76%	87%	94%
FWP	81%	90%	91%
RWP	76%	87%	97%
NFO	65%	82%	96%

The Marine Corps defines the retention objective as the total requirement for the particular grade and MOS. The ACP program in the aggregate has performed according to plan, however the fixed wing community still is challenged to meet its goals. This is partially a result of prior year's losses resulting in an eligible population less than the goal. The increase for lieutenant colonels is more a reflection of a new program coming on line. The percentages are not necessarily comparable across FYs as the total requirement may change from year to year, while the eligible population is less responsive as they were accessed up to a decade prior. For instance, the total requirement for Majors who are fixed wing pilots increased to 358 in FY02 from 318 the year before. Additionally, the eligible population for fixed wing jet pilots is decreasing as a majority of newly selected majors have an eight year obligation for being designated a naval aviator. The following two tables provide percentages of the population "On ACP" divided by the total requirement.

Table 4. Attainment rate based on retention objective for Majors.

	FY00	FY01	FY02
ALL AVN	97%	101%	101%
FWP	70%	68%	66%
RWP	107%	117%	118%
NFO	154%	132%	134%

Table 5. Attainment rate based on retention objective for LtCols.

	FY00	FY01	FY02
ALL AVN	67%	101%	95%
FWP	53%	68%	77%
RWP	73%	117%	97%
NFO	98%	132%	163%

The Marine Corps approved 303 ACP new/converted contracts under the FY02 program. This represents \$3.9M in initial payments of a total outlay of \$18.6M for the year. The early contract writing authority previously mentioned resulted in 12 new contracts, 8 of which were fixed wing pilots. Tables 6 and 7 below present raw numbers by aircraft community for FY02.

Table 6. FY02 ACP Statistics for Majors.

Category	Inv Eligible	Total Requirement	On ACP
ALL AVN	1117	962	967
FWP	342	358	238
RWP	640	514	608
NFO	135	90	121

Table 7. FY02 ACP Statistics for Lieutenant Colonels.

Category	Inv Eligible	Total Requirement	On ACP
ALL AVN	501	499	472
FWP	168	198	153
RWP	265	261	254
NFO	68	40	65

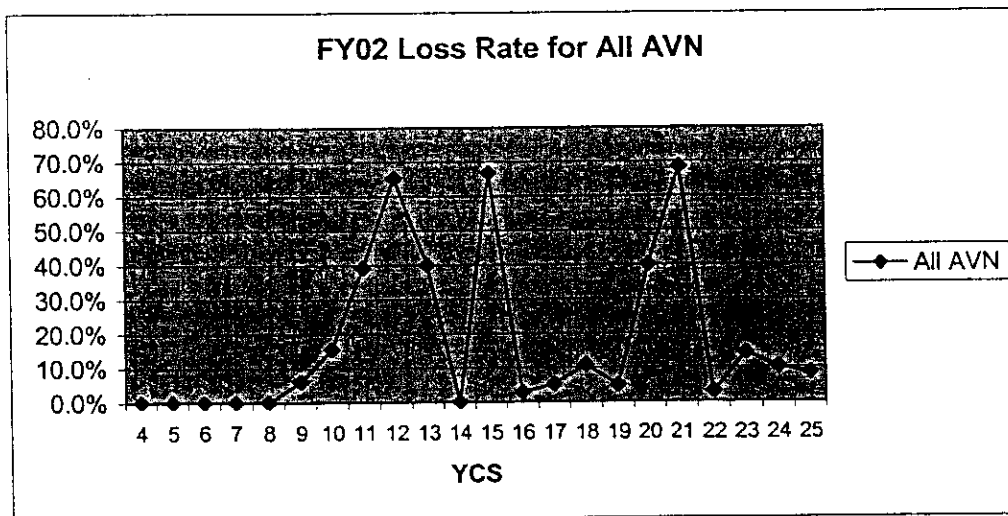
3. Aviation Officer Losses. Table 8 below shows the FY02 losses due to resignations. Overall losses for fixed wing pilots have improved for majors. While the overall trend has improved, there is some caution because many individuals are under longer obligations and therefore not currently eligible to resign at the same time as their predecessors.

Table 8. FY01 Voluntary Resignations.

YCS	8	9	10	11	12	13	14	15	16	17	18	19	20
Resignations	0	11	21	21	9	2	0	9	0	0	0	0	0

Figure 1 shows the aviator loss rate for FY02. The rates are determined based on total losses divided by eligible population. The increase in ACP "take rates" of course decrease the eligible population to separate. Therefore, rates over 50% may seem high however that is what should be expected for individuals who have not signed up for ACP.

Figure 1. FY01 Aviator Loss Rate.



4. Aviator Objective Force Profiles (OFP). The Marine Corps has been successful shoring up rotary wing and NFO officer inventories in the past few years. Marked improvement in the fixed wing inventory resulted in the fiscal year ending short 224 fixed wing pilots, down from 326 the year prior. The future outlook is guarded, as we strive to meet the challenge of sustaining our optimal career fixed wing aviation requirement. Programs such as Field Accession Board, Transition/Conversion Board and the Return to Active Duty Board work to improve those short communities. For instance, last year's Return to Active Duty Board selected 7 fixed wing pilots to return to the active component. The following two figures show the Aviator Objective Force Profile (OFP) for the beginning of FY02 and the beginning of FY03.

Figure 2. Aviator Objective Force Profile beginning FY02.

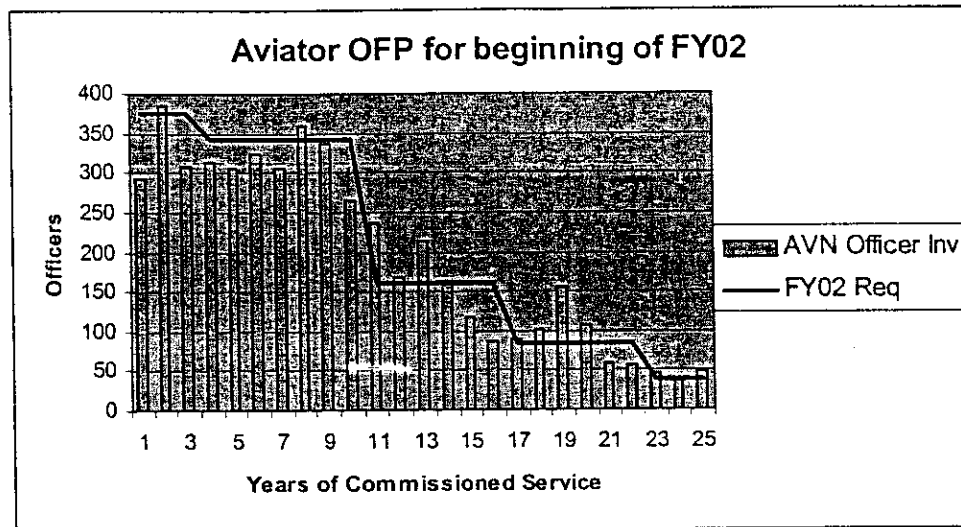
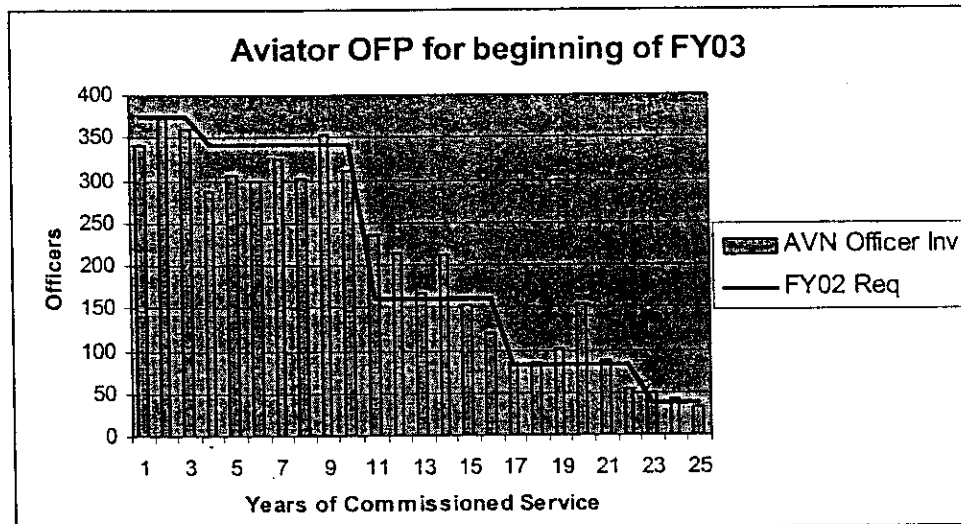


Figure 3. Aviator Objective Force Profile beginning FY03.



INFORMATION PAPER

SUBJECT: Army Aviation Continuation Pay (ACP) Program

BACKGROUND:

- The Army traditionally had a very stable pilot force. It first started experiencing a shortage -- specifically in Apache warrant officer (WO) pilots, in FY97, at which time they were manned at 91% of their 1,020 requirements. More pilots were leaving than were programmed to leave due to increased tempo and family separation caused largely by a CONUS imbalance of Apache units and increased post cold war deployments. Adding to the problem were an increase in Apache pilot authorizations in both FY98 and FY99, and the training needed to transition to the Longbow (from FY98-FY05). The Army took several initiatives to increase Apache WO pilot inventories, to include increasing accessions (from 90 to 140), instituting a voluntary recall, and offering selective continuation. They also started to correct the stationing imbalance, but it was recognized structural changes would take years to improve pilot on-station stability. As FY98 closed out, the Army was meeting only 87% of their Apache WO requirements (925 vs 1,059).
- To generate higher retention among experienced Apache WO pilots in the near term, the Army for the first time offered ACP in FY99, while resolving the structure and stationing problem over the long-term. Increasing the number of seasoned Apache pilots was critical for safety, as well as economic considerations. In economic terms, with more experienced pilots retained through payment of ACP to a projected 383 pilots at a cost of \$4.6M in FY99, the Army could reduce the number of pilots being trained (at approximately \$600k/pilot for Air Qualification Training (AQT)). This is a significant reduction in overall cost to the Army in comparison with the cost of ACP. Army anticipated they would need to offer ACP to Apache WO pilots for 3-4 years, by which time the inventory would again be adequate to meet requirements.
- In FY99, the Army offered \$12k/year in ACP to Apache WO pilots who had completed their active duty service obligation (ADSO) but less than 13 years of aviation service (YAS), in equal annual installments through 14 years of commissioned service (YCS). The Army projected an 85% take rate (383 pilots) in FY99, but ended FY99 with a 91% take rate (470 takers of 517 eligible) at a cost of \$5.56M.
- Even though the FY00 NDAA substantially increased ACP statutory authorities, the Army continued with the same ACP offer in FY00 -- \$12k/year to eligible WO pilots in an aviation specialty with a critical pilot shortage (which Army defines as being manned at 95% or less of requirements), in equal annual installments. Two Army aviation communities were eligible for ACP in FY00: (1) Apache WO pilots (90% manned at FY00 start (1,017 pilot on-hand of a 1,124 requirement)), and (2) Special Operations (SO) MH-47 (Chinook) WO pilots (82% manned (78 pilots, 95 required)).
 - The shortage of SO MH-47 WO pilots was attributed to very high perstempo resulting from a combination of: (1) an inventory shortfall exacerbated by a 26% increase in requirements in FY96, (2) long (12-18 months) cycle to select and train a qualified SO MH-47 WO pilot, (3) decreasing available inventory due to conventional unit closures and 12% annual turnover, and (4) an increase in post cold-war deployments. Management initiatives used to address the problem (e.g., Chinook pilot recall, selective continuation, heightened recruiting) helped, but only maintained balance of gains to losses.
 - Organizational structural changes in FY01 and FY05 to support Army's Joint Forward Basing of MH-47s would place more stress on maintaining the strength of this specialty, as it would drive down CONUS time on station from 43 to 22 months. The Army viewed ACP would serve as a significant incentive for a CH-47 Chinook pilot to take on the added burdens of transitioning to a MH-47 pilot, and also serve to retain on active duty more MH-47 WO pilots incurring those burdens.
- The Army projected that 89 pilots would accept ACP contracts in FY00 at a projected cost of \$6.6M (41 new Apache WO ACP contracts, anniversary payments for the FY99 Apache WO ACP contracts, and 47 new MH-47 WO contracts). The Army is closing out their FY00 ACP program with 110 total ACP takes (65 Apache and 45 MH-47 WO pilot contracts).
- In FY01, the Army continued its program unchanged from the previous year. Apache and SO MH-47 WO pilot inventories made significant gains due to bonus stabilizations. Apache WO pilot inventory was

sufficient to man 93% of requirements, and SO MH-47 pilot inventory was sufficient to man 89% of requirements by years end.

- The Army expended \$7.0M in FY01 for ACP. This included the cost of the 28 new ACP contracts in FY01, plus anniversary payments for the FY99 and FY00 ACP contracts. Those costs were fully funded in the Army's FY01 budget and POM for the out years.
- By the end of FY01, aggregate aviation warrant officer inventories could only man 86% of Army requirements. MH-47 and AH-64 WO pilot inventories, although still short are now among the three healthiest. The Army elects to further expand ACP to all modernized warrant officer MOS in order to retain critical inventory in additional WO aviation specialties.

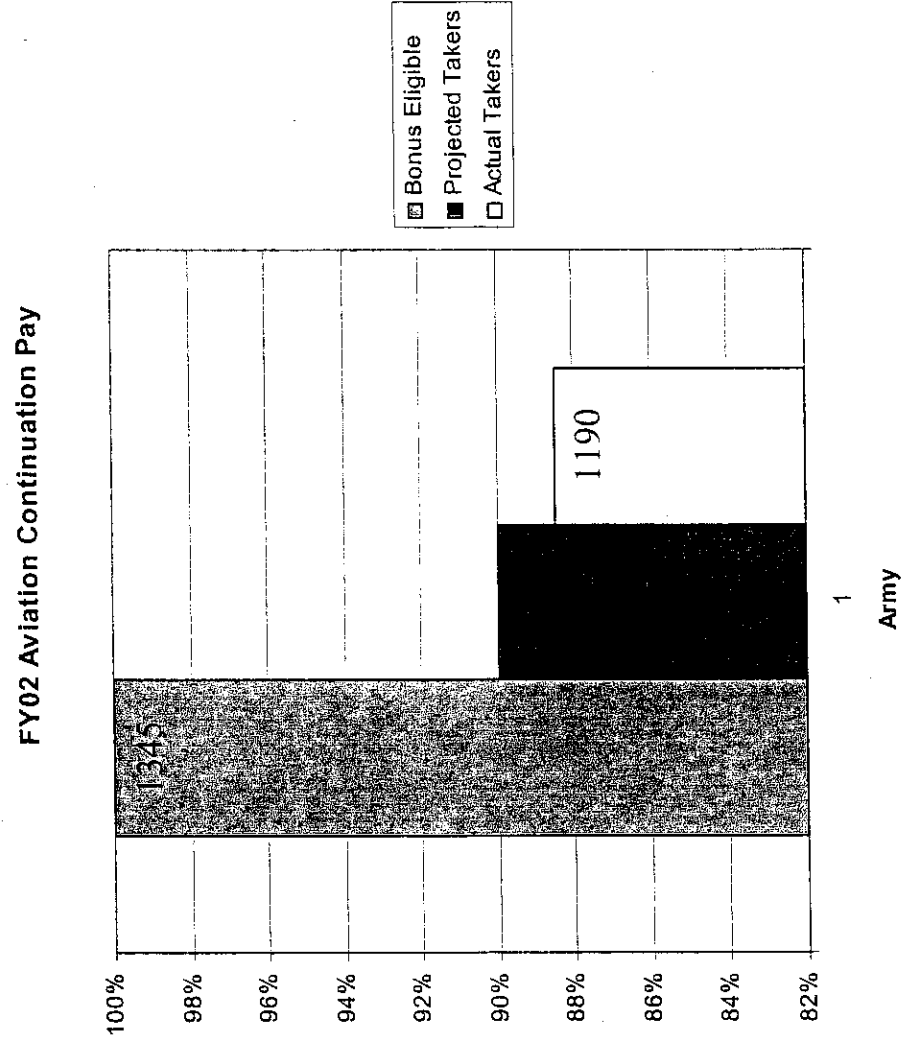
MAJOR POINTS OF ARMY'S APPROVED FY02 ACP PLAN:

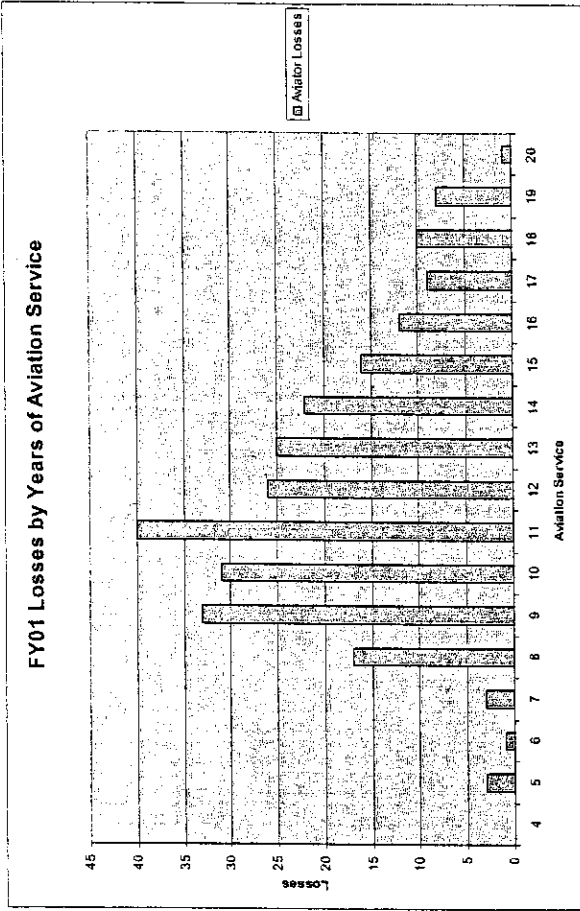
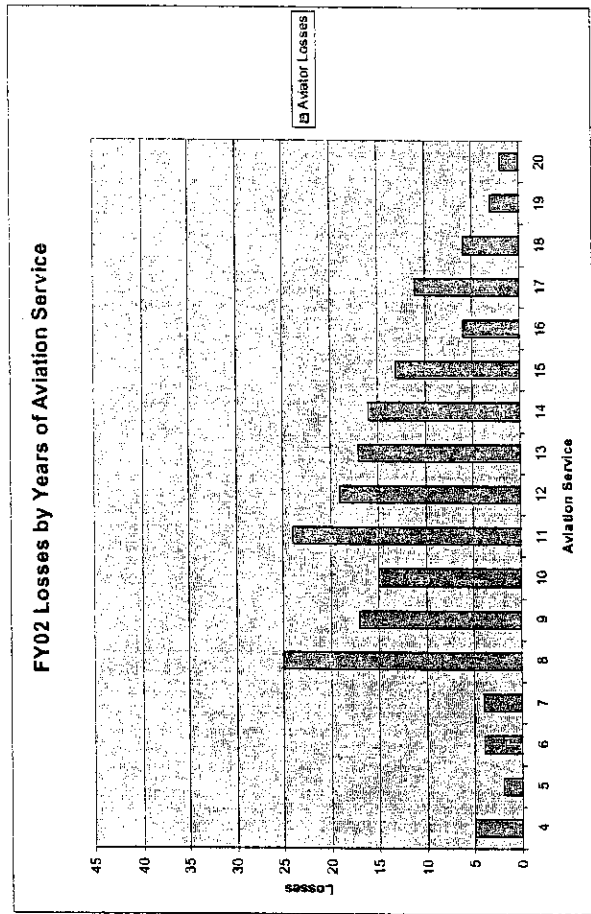
- Army designated all modernized aviation WO MOS as critical. Offered ACP to aviation WOs in two critical windows. WO with 7 years aviation service but less than 11 years are offered contracts thru the 11th year of service at 12k/yr. WO with 11 years aviation service but less than 15 years are offered contracts thru the 15th year of service at 12k/yr.
- Shortages of special operations aviators are highlighted by combat operations in Afghan theater of operations. Warrant officers in all special operations aviation specialties who have more than 6 but less than 24 years of aviation service are offered contracts in a maximum of 4 year increments through their 25th year of aviation service.
- Opened opportunity to 1100 new WO applicants for a total FY02 cost of \$18M. Potential second year costs in FY03 are \$21.6M. Funds for the FY02 program were not in Army budget or in FY02-07 POM for out years. Execution year reprogramming covered FY02. With budget adjustment for FY03 and POM submission for 04-09. **FY03 budget was not covered by congressional allocation. Funding for the adjusted program is in the POM for 04-09 years.**

CONCLUSION: ACP is a cost-effective compensation program for the Army to use to retain critical WO inventory for the transition years FY02 through FY05. Under the Army's revised program, the maximum that could be payable on any contract would be \$48k over the life of the service agreement. By comparison, the Army spends on average about \$6000k to send a WO pilot through undergraduate and advanced pilot training, and an additional \$1.6M in aviation experience through 6 years (to the end of their pilot commitment).

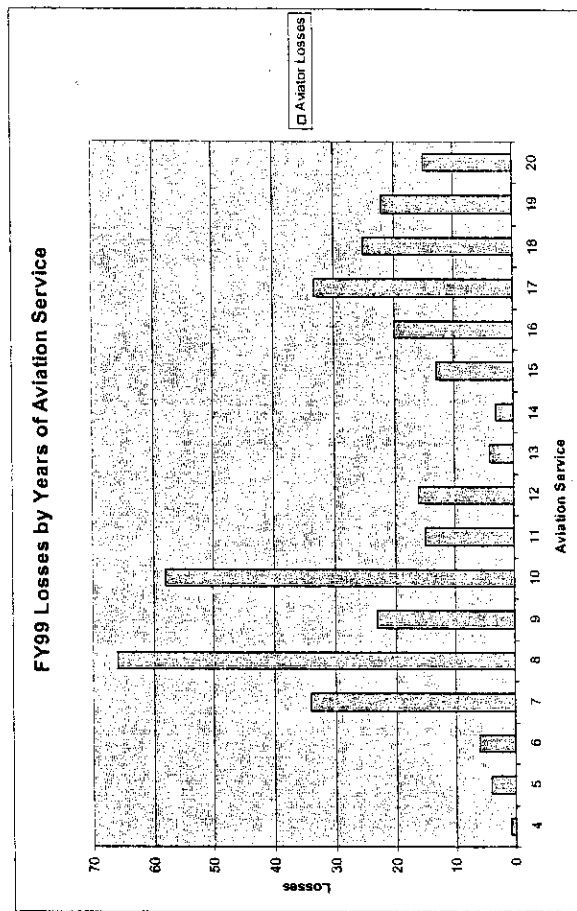
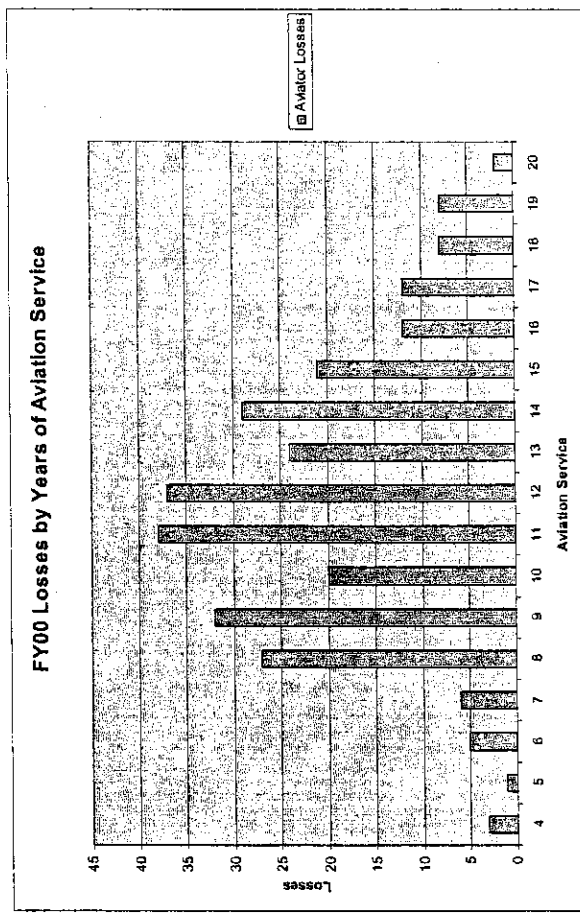
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Army achieved 88.3% take rate on offered contracts for FY02.

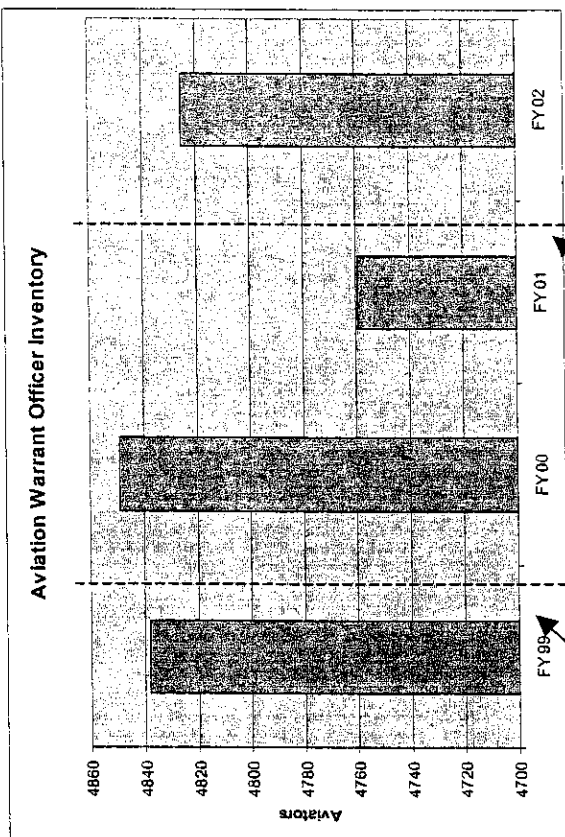




Aviator loss history (excluding retirements) for previous four years demonstrates effectiveness of ACP program. FY02 separation rate was 13% (189 out of 1450 eligible to leave) as compared with 27% in FY01 (373 out of 1382 eligible to leave).

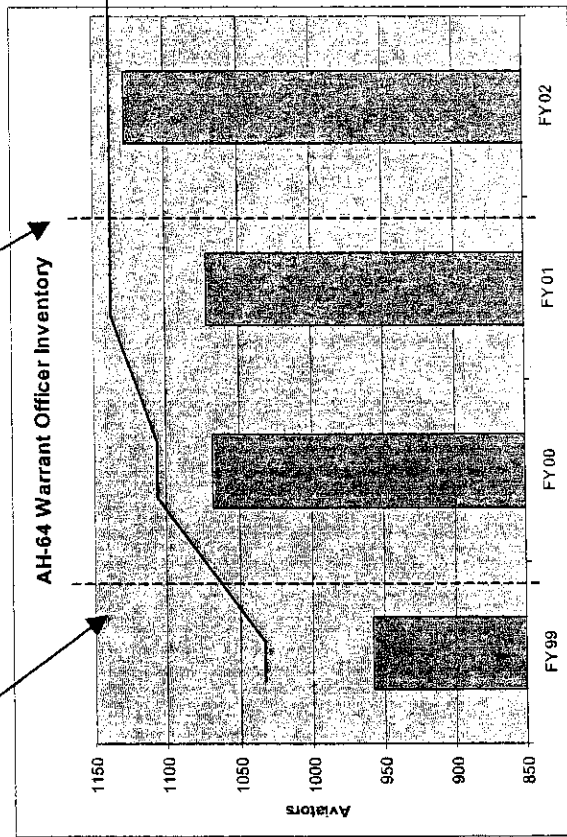


Aggregate WO inventory requirement
Is 5000 in order to fill authorized positions



Army implements ACP for
AH-64 warrant officers

Army expands ACP to all
aviation warrant officer specialties



Retention Behavior

Prior to FY02, the Army limited ACP offers to primarily AH-64 warrant officers with a small number (<40) special operations MH-47 warrant officer pilots included. The charts at left show the effects of ACP on AH-64 inventory and aggregate aviation warrant officer inventory over the past four years. While aggregate inventory declined between 2001 and 2002, AH-64 inventory rose, and is now close to required strength. After expanding the ACP program to include all aviation warrant officer specialties, the inventory setbacks were reversed. Inventory will likely reach required strength by FY05 provided the program is continued.